

THE QUARTERLY REVIEW OF COMMERCE



The Fight Against Inflation in Total War
Salvage Is Fun!

Antonin Basch

George McDowell

Small Business Enterprises in an All-Out War Economy

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Book Review Section { Does Distribution Cost Too Much?
The New Economic Warfare

Volume IX

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LOOKING THROUGH THIS ISSUE

THIS issue of THE QUARTERLY marks an attempt by the editorial staff to present to Canadian business men studied approaches to the most bothersome problems of the day—those concerning the war and our life. Future issues will continue this policy in presenting articles on problems of business caused by the war, written by some of the keenest and best-informed men of North America.

* * *

THE FIGHT AGAINST INFLATION IN TOTAL WAR

DR. ANTONIN BASCH (page 75)

“IT is generally recognized that in financing a war, inflation should be avoided and a rise in the price level checked”, and the financial experts and economists of our country are at present engaged in this fight against the enemy inflation. Dr. Basch describes in his article developments of the war economies of Germany, Great Britain, and the United States, giving statistics up to the early months of 1942. Dr. Basch, one of the foremost economists of Czechoslovakia, Czech member of the League of Nations, and managing director of one of the largest chemical companies in Central Europe, fortunately escaped from Prague after Munich and is now lecturing at Brown University. This article is certainly up-to-date and one well worthy of your study and careful thought.

* * *

SALVAGE IS FUN

GEORGE McDOWELL (page 89)

“THE man who used to talk salvage was pictured as a bewhiskered individual pushing a homemade wagon, the two handles of which were salvaged from defunct lawn mowers.” Now the purchasing agent of one of Canada's most prominent business institutions finds that he has been forced into the field of salvage as supplies become more and more limited. This humorous article will provide you with a few ideas as you, perhaps, have had to join the humble ranks of salvagers. Necessity is the mother of invention—and salvage men, too!

* * *

SMALL BUSINESS ENTERPRISES IN AN ALL-OUT WAR ECONOMY

ELDON C. SHOUP (page 94)

“SMALL business may rightly be termed the infantry of the economic war front. As wars are not won by tank and air assault alone, so it can be said that a long war of production cannot be won by the giants of industry without benefit of the holding force represented by small business.” Yet government legislation and the transition to a war economy have plunged the small business man into a host of bewildering problems which threaten his very existence. Eldon C. Shoup, graduate of the Harvard School of Business Administration and regional business consultant of the U.S. Bureau of Foreign and Domestic Commerce, has met first-hand most of these problems in his experience as consultant with the American Government.

COLLECTIVE BARGAINING
ANGUS MACINNIS, M.P. (page 101)

A COMPLETE mobilization of industry in an all-out war effort demands harmony between the employer and the employee. The government has stated that nothing must impede the war effort, not even strikes, and public opinion has supported it. Just how much of the hard-won ground gained in the past years by Labor is to be sacrificed during the war is an important question. Mr. MacInnis, a former motorman employed by the Vancouver Street Railway and a member of Parliament since 1930, takes up the cudgel for the laboring classes and gives us the "other side of the picture".

* * *
WE MUST MANAGE
J. W. HORSEY (page 112)

FROM a wealth of experience which, in his own words "cost me a lot", and which qualifies him as one of North America's outstanding business men, Mr. Horsey emphasizes the need for efficient management in business and government life. As President of Standard Brands Limited for some years, and as the present President of Dominion Stores Limited, Mr. Horsey is well equipped to discuss this subject from a point of view that few men are able to take.

* * *
THE DEVELOPMENT OF SUPERVISORY AND EXECUTIVE
TALENT TO MEET THE EMERGENCY
H. L'ECUYER (page 119)

THE expansion of war industries in Canada has given new impetus to study in personnel management. Enlarged plants have demanded increased staffs, and the training of these men is one of industry's most important problems. Specific methods to be used in employing and training supervisors and executives are dealt with by Mr. L'Ecuyer (M.B.A. Harvard Graduate School of Business Administration) who is now a member of the faculty of Business Administration at this University.

* * *
POST-WAR RECONSTRUCTION: LINES OF APPROACH
PAUL MARTIN, M.P. (page 135)

AS a man of culture, a keen student of affairs and social philosophy, a shrewd observer with wide horizons, Mr. Martin is excellently qualified to write on this important subject. St. Alexander College, University of Toronto, Osgoode Hall, Harvard University and Cambridge University have been his formal schools of education, while the Bar, the League of Nations, and the Canadian Parliament have given him practical experience in a wide field. His careful treatment of this subject will not only be enjoyable, but will stir up your minds to consider the problems of "days-after-peace" while we are still at war.

* * *
BOOK REVIEW SECTION (page 145)

"DOES DISTRIBUTION COST TOO MUCH?" by P. W. STEWART and F. J. DEWHURST, and **"THE NEW ECONOMIC WARFARE"** by DR. A. BASCH are given reviews which will prove a boon to busy readers.

—W. F. STEEPER, *Editor*.

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THE FIGHT AGAINST INFLATION IN TOTAL WAR

ANTONIN BASCH

I.

IT is generally recognized that in financing a war, inflation should be avoided and a rise in the price level checked. The experiences of the last war and of the post-war period have contributed to the conviction that inflation with all its consequences in the economic as well as in the social field would definitely imperil the achievement of maximum economic efficiency. The supreme objective of a war economy is, of course, to *achieve the maximum output* of war supplies within the shortest period of time. Obviously this objective must be given preference over all others. A total war will not be lost because of financial difficulties; one thinks more in terms of real economy expecting that once the necessary supply of goods is secured, the financial mechanism will be provided. Nevertheless, the financial question is not unimportant. The impact of total war, the increase of monetary income as a result of generally increased production simultaneous with the required curtailment of civilian consumption creates a situation ripe for the development of a price rise.

In recognizing the attempts to prevent inflation as an aim of war economy, we implicitly assume that this policy is in agreement with the general objective of achieving the maximum output within the shortest period of time, or that both policies are working in the same direction. Should this prove to be false, should any of the numerous individual measures for checking and preventing inflation obstruct the war effort, then obviously they must be altered and adjusted to conform with the main objective. Each measure should therefore be examined on its own

merits, and also with regard to the comprehensive, anti-inflationary policy.

There are various definitions of inflation, all stating a definite relationship between the existent spending power and available goods, taken in connection with the fluctuation in the price level. As an example, the last definition by Professor Pigou states that "inflation exists when money income is expanding more than in proportion to income-earning activity".¹ This emphasis on increasing income as the cause of inflation would lead rightly to a concentration on financial and monetary measures in fighting inflation. But in wartime the problem of avoiding inflation cannot be solved by financial and monetary policy alone, since there is a danger that inflationary effects may be brought about by non-monetary causes. "Two forces operate to change the pattern of demand: war needs of all kinds and the generally increased income of the working classes, whose consumption develops in certain definite directions"²—an increased demand in two important sectors of the national economy.

The economic impact of the present war is tremendous; in the principal belligerent countries 50% of the national income is absorbed by the governments, compelling a reduction in the supplies available for civilian consumption. The task of preventing inflation is extremely difficult in spite of our increased knowledge of the whole problem. And the difficulties increase as the war proceeds. In the first years the existing stocks and inventories can be used. This plus the failure to replace depreciated machinery for a time eases the pressure on civilian consumption. But the use of disinvestment is limited as stocks are exhausted. *Then, as the full impact of war is felt, the difficulties of checking inflation increase.* In view of this situation, it is not inappropriate to ask whether and by what means it is possible to prevent inflation in a fully developed total war, with further qualifications as to the cost and conditions.

In speaking of inflation, Mr. Keynes has said: "Germany has stop-

¹A. C. Pigou: "Types of War Inflation" in *The Economic Journal*, Dec., 1941, p. 439. In my *Theory of Inflation* (Bratislava, 1922) I have defined inflation as the spending of newly created purchasing power without an adequate supply of new commodities. J. M. Keynes speaks of the inflationary gap as "the difference between earnings available for expenditure and the value of the consumer goods available for purchase at present prices." *Financial News*, London, March 10, 1941, p. 2.

²Antonin Basch: *The New Economic Warfare* (Columbia University Press, N.Y., 1941), pp. 59-60.

A. C. Pigou distinguishes in the above-mentioned article between two types of inflationary movements: the deficit-induced inflation and the wage-induced inflation. The second develops if the wage earners ask in wartime for increases in pay to offset rising prices, when these rises are due to diminished productivity.

ped inflation dead; we have stopped it largely. It (preventing inflation) is a thing you must do. It is perfectly possible. There is no reason in the world why not. It's just a muddle and there is no need to have a muddle."³ It is true that in all the principal belligerent countries inflation has been controlled and limited but it would be premature, to say the least, to declare they have prevented inflation or "stopped it dead". True, a greater portion of government expenditures are financed by taxation than in the first world war; a special emphasis is being laid upon borrowing out of real saving, supported also by some kind of a compulsory saving; at the same time price and wage control and rationing grow steadily more comprehensive and adequate. But *long-term* planning is impossible during a war, since the war economy may at any time be called upon to face sudden and tremendous shifts in conditions. This was the case of the British economy after Dunkerque, of the German economy since the unexpected turn of events in Russia and of the United States after Pearl Harbor. The war economy must be adjusted to such unexpected changes and demands and it is extremely difficult to co-ordinate it *in time* with an anti-inflationary general policy.

But there is another point. With all idle capacity and labor employed, a further increase in war demands can be supplied only by an *equivalent reduction of civilian production*. The total monetary income may rise or remain unchanged, but the volume (and total value) of goods available for civilian consumption is declining. To avoid inflationary price rises, *the stream of spending power must be synchronized both in time and in volume with the stream of available consumer goods*. In this case the danger of inflation is not created by an increased money income relative to the volume of goods available, but, in the first instance, by the reduction of this volume of available consumer goods without a corresponding reduction in monetary income.

The siphoning off of surplus purchasing power in a time of longer working hours and increasing monetary income is certainly a vast task in a monetary economy; it is more than a technical problem that requires the automatic use of mathematical formulae and some kind of a sliding scale of deferred payments. It influences problems of psychological, political and social importance (incapable of exact measurement), not to speak of the primary necessity of maintaining the highest possible

³New York Times, May 9, 1941, p. 1. Similarly a German expert, R. M. Hettlage, writes in *Deutscher Volkswirt* (December 20, 1940, pp. 175-180): "The free purchasing power when collected will in the end flow completely to the state. This free purchasing power is necessarily approximately adequate to the state's credit need, which can never be greater than the total amount of goods and services demanded by the state . . ."

output. Another question, especially in democratic countries, is to determine the role flexibility and co-operation shall play. A situation may arise where a decision must be made between a rigid, completely regimented war economy, "stopping inflation dead", and one with a certain flexibility and a limited amount of controlled inflation. For a study of our main questions we will turn to the developments of the war economies of Germany and Great Britain.

II.

Germany entered the war with her economy highly organized along the lines of the pre-war "Wehwirtschaft" (armed economy), ahead of the game with a comprehensive, completely controlled economic organization. The general price and wage levels were frozen by the wage and price stop order of November, 1936; she also introduced a profit-stop order (the decree of November 6, 1940). The aim was a *complete stabilization of the level of prices*—a "dead stop" of inflation. Even before the war, the financial policy had provided that an increasing part of the national income should be absorbed by taxation and expanded government borrowing. German experts expected that the surplus purchasing power not spent for goods and services would return to the government directly and indirectly—"there could not be financial difficulties or any danger of inflation as long as the whole organization was functioning". A comprehensive rationing system, introduced just before the outbreak of war and continually expanded, would, according to the opinion of German experts, limit automatically the volume of civilian expenditures; the remainder of the individual's income would be absorbed by taxes or by direct and indirect government borrowing. All this should work with the precision of a mathematical formula, as long as the supply of goods was sufficient to maintain the efficiency of the whole organization.

During the first two years of the war Germany succeeded largely in avoiding inflation. The wholesale price index rose from 107.1 in August, 1939, to 113 in October, 1941, the cost of living index from 127 to 133 in September, 1941, and the retail food price index from 122 to 128 in September, 1941—all representing minimum increases in indices. In the financial year 1939-40 (April 1, 1939, to March 31, 1940) nearly 45% of Germany's government expenditures were defrayed from taxation. In 1940-41, with expenditures of 68.2 billion marks, 30.2 billion (or about 44%) were covered by taxes and other sources, 38 billion by borrowing. Short-term debts accounted for 20.17 billion marks, long-term for 18.18 billion marks. But no loans were offered in the open market; the greatest part of the long-term debts

was taken by social security institutions (it is estimated they have taken 5 billions yearly), by large private insurance companies, by all kinds of credit institutions including savings banks investing their increased deposits, and by big industrial corporations investing idle funds or surplus profits. There was no large voluntary buying of government bonds by the public.

During the last year, as military activity has expanded (especially on the Russian front) government expenditures have risen enormously. Total revenues for the year 1941-42 were estimated at 40 billion marks—30 billion from tax receipts, 3.6 billions in contributions from the seven occupied countries. On March 31, 1941, the government debt was officially 90 billion marks; by the end of September it had risen to 114 billion marks; at the end of 1941 it was 128.5 billion, and a minimum estimate for March 31, 1942, places the debt at 140 billion marks—an increase of 50 billion for the fiscal year 1941-42. With fiscal revenues of about 35 billion marks, this means a total of 85 billion marks spent by the government out of a total national income estimated at from 110 to 115 billion marks. *It is evident that the pressure on the whole price structure has been greatly intensified; various symptoms of inflation may certainly be expected.* The total number of bank notes in circulation has risen from 10.91 billion marks at the end of August, 1939, to 14.03 billion on December 31, 1940. At the end of May, 1941, before the Russian campaign began, it was 15.21 billion marks; by December 1941 it had risen to 19.32 billion.

To encourage saving, "iron savings accounts" were introduced on October 15, 1941. In these, the depositor agreed to leave his deposits in the bank until at least a year after the war was over; an average weekly deposit of 25 marks would not be taxed. As a further means of increasing revenue, profits of all business concerns in 1940 in excess of those earned in the last peace year had to be surrendered to the government.

The only real outlet for buying non-rationed commodities was on the stock exchange. There, despite the fact that dividends were limited to 6%, the index of common stocks rose from 93.2 in August, 1939, to 146.4 in September, 1941, in spite of official warnings and various unpopular steps taken to control the market. Business concerns were forced to sell a substantial proportion of their holdings of shares in exchange for public bonds. Despite this control, the stock market situation is a definite symptom of inflation; it represents an attempt by

the people to convert a part of their property into a form that they consider of real value.

One form inflation has taken in Germany is the depreciation in quality of goods, or the replacement of standard goods by substitutes normally of less value, prices remaining the same. Thus the same amount of money buys goods of less value, a fact which could result only in a *lower evaluation of money*. It is hardly necessary to add that, with an increasing monetary income and reduced rations, the *black market* (bootlegging) steadily expands, in spite of all punitive measures to control it.

The ration system set up in Germany differentiates between different classes of people, especially in the case of food rationing. Rations differ for heavy workers, for light workers, for mothers and children and for old and sick persons. The armed services and Nazi party officials, of course, occupy a privileged position. With everything rationed, the value of income and of money is closely linked with the amount of real goods available; this *amount of goods*, and not the monetary value of income, is the principal factor in determining the marginal value of money. When a worker with a monthly income of 300 marks is allowed to spend only 120 of them—100 being deducted in taxes and various contributions and with no acceptable way of spending the other 80—then he forms a *psychological re-evaluation* of his income closely connected with the amount and quality of the goods he can obtain by his ration cards. It is obvious that this situation creates a *levelling tendency* in real income, but also with discrimination in favor of persons needed in war production. This differentiation has the effect of placing a different evaluation on the same monetary income by different groups of people.

To understand Germany's relative success in preventing inflation up to the present time we must take into consideration the important factor of conquests and supplies from occupied countries. The importance of such supplies in fighting inflation derives from the fact that the new supplies do not generate new monetary incomes, as their production in Germany would do. The goods were appropriated in various ways: by out-and-out conquest, by levying regular contributions in occupied countries used for purchase of goods in these countries, by exporting under clearing agreements with the exchange ratio favorable to Germany and the German debit balance on clearing accounts, or by purchases made by German soldiers paid for in special occupation's money and then sent to Germany. Whatever the form, the result was

the same: the occupied country paid for goods that increased Germany's supplies and had a direct anti-inflationary effect by improving rations and contributing to Germany's war finances. But the improvement in the German situation was achieved at the expense of the occupied countries where prices rose in spite of efforts to set into operation a price-stop policy after the German example. In summer 1941, as compared with August 1939, wholesale price indices had risen by 136.5% in Rumania, 45.2% in Hungary, 41.5% in Bulgaria, 40% in France, 86% in Denmark, 50% in Norway and 40% in Finland. Thus Germany had strengthened her own financial position by creating inflation in occupied Europe.

But the conquest has been consumed, stocks in the occupied areas have been exhausted and contributions in kind will not increase to match the increased military need, despite all pressure exerted. Only new conquests and supplies from abroad can ease the tension, as the signs of inflation increase. *There is a maximum limit to the ratio between total purchasing power diverted to the state and the total national income.* The exact limit will depend on the real value of goods remaining for civilian consumption and on the functioning of the whole anti-inflationary policy. The President of the Reichsbank, Dr. Funk, recently admitted that the Reichsmark had been depreciated;⁴ he claims it will regain its original value after the war, when large quantities of goods at low prices from raw material producing territories can be exported to Germany. The large numbers of wage and salary earners who are compelled to save (because there is no outlet for spending) have deposited a considerable part of their income in banks. They have done this in confidence that a German victory will guarantee a stable currency and a repayment of deposits after the war. But let this conviction once be shaken and new savings will decline in volume, and spending in the black market will rapidly expand, especially if the scarcity of goods is not alleviated. The most complete regimentation could not then stop the galloping inflation that would follow.

Another way of attacking this problem would have been the complete replacement of the monetary by a natural economy, allocating and distributing goods and services directly. As a matter of fact, the German economy has approached such a system. But inflexibility will not keep prices stable; indeed it only makes the system fragile.

With war demands assuming such magnitude in Germany since the Russian war, some inflationary effects will develop in spite of con-

⁴*The Economist*, February 7, 1942, p. 190.

trol and regimentation. The intensity of these effects will depend upon the real income remaining for the civilian population, upon the duration of the war and upon popular morale. The most comprehensive organization will not suffice if real income—supply of consumer goods—is relentlessly reduced in a prolonged war, and if the confidence of the people is shaken.

III.

At the outbreak of war the British economy was not organized for war; neither was it working at full capacity. A certain price rise was therefore necessary to achieve maximum production; the decline of the rate of sterling intensified this increase. But the British were from the first fully conscious of the dangers involved in inflation and immediately took important anti-inflationary steps. Great Britain, however, did not follow the drastic German policy of a complete freezing of prices and wages; rather, she took measures more appropriate to her economic structure and position.

Since Great Britain imported the better part of her food and raw materials, she could control the prices of the most important commodities at their source. The Ministry of Supply became the sole importer of the most important raw materials, and attempted to stabilize prices by concluding huge contracts (some for the duration of the war). The Ministry of Food became practically the sole importer of food, handling between £2 and £2.5 billion of foodstuffs per year. To stabilize agricultural prices, as well as to stimulate production, the government assured the farmer fixed prices on nearly all products. A system of subsidies was established to keep down the retail prices of essential foods, this system costing an estimated £100,000,000 in 1941. The rationing of essential foodstuffs was initiated in January 1940 and was considerably extended during 1941 to include textiles, shoes and other consumer goods. Even more rationing is to be expected. The price control that started on a very liberal basis on January 1, 1940, was supplemented in June 1941 by legislation empowering the government to impose maximum prices on various consumer goods. Since then this policy has been further strengthened. The widespread linking of wages with the cost of living index or with the prices of key commodities has proved to be an advantageous wage policy for war economy.

In the budget discussion of April 1941 the government clearly stated its policy to stabilize prices and wages which had increased especially in the first six months of the war. Between August 1939 and August 1940 the wholesale price index rose from 98.1 to 134. In April

1941 it was 151; by October 1941 it was 155. The index of retail food prices rose from 137 in August 1939 to 159 in April 1941, to 165 in October 1941. The cost of living index rose from 155 in August 1939 to 180 in May 1940, to 198 in April 1941 and to 199 in October 1941.⁵ It is evident that the rising tendency was considerably slowed down in 1941.⁶

In the field of financial policy the necessity of covering growing expenditures from increased taxation and by diverting the surplus purchasing power into the purchase of government securities was, of course, recognized from the beginning. In the first year of the war total expenditures were underestimated. But in the budget for the fiscal year 1941-42 definite provision was made for increased expenditures and revenues. The government was determined to cover "the inflationary gap". In the period of September 1939 to February 1941 total government expenditures amounted to £4,671 million. Total revenues covered £1,985 million, leaving a deficit of £2,686 million. In the fiscal year 1940-41, 36.4% of total expenditures were covered from taxation; the estimates for the year 1941-42 were 37.9%.⁷ The figures for the 10-month period, April 1, 1941, to January 31, 1942, are as follows: total ordinary expenditures £3,898 million; total ordinary revenue £1,561 million or about 40% of the total.⁸

In the period April 1939 to December 1941 the British Government borrowed £5,537 million; out of this £2,448 million were short-term loans.⁸ London clearing banks supplied the treasury with only 20% of total government borrowing. This is to be contrasted with the German financing, for in England the much greater part of government securities have been bought by *private* investors, whereas in Germany private investors' savings deposits are being used for indirect investment in government loans.

At the time of the budget discussion of April 1941 daily expenditures were running between £10 and £12 million, and savings at the rate of £5.5 million. The policy to close the "inflationary gap" started from

⁵The *Economist* index of wholesale prices rose from 96.8% on August 30, 1939, to 149.9% on February 3, 1942, but from February 4, 1941, to February 2, 1942, it rose only from 141% to 149.9%.

⁶The wholesale price index for 1941 shows a rise of less than 5% over the year as compared with 21½% in 1940 and 24½% in the first four months of the war.

⁷The *National Bank of New York Bulletin*, March 1942, p. 35.

⁸British treasury figures up to February 18, 1942, show revenues during this war have totalled £4,020 million against £5,667 of borrowing. Thus revenues have covered 41.5% of the total expenditures of £9,482 million compared with only 28% in the last war. *New York Herald Tribune*, March 9, 1942.

these figures. The development since then proves again how difficult is any kind of long-term planning during a total war, for at this time Great Britain is spending, not £10 to £12 million daily, but £14.5 million daily to prosecute this war. For the week ending January 31, 1942, the total expenditures were £101.7 million, for the week ending January 24, £86.49 million, for the week ending January 17, £86 million.

Thus the fight to close the "inflationary gap" *has to be carried on permanently in order to divert surplus purchasing power to the government and to adjust consumer demand to the goods available.* As war production simultaneously generates new incomes and necessitates reduction of consumption, the task becomes ever more difficult.

The British task of financing the war with an anti-inflationary policy was made easier by the existence of large stocks of supplies, by the use of foreign investments to buy goods, by large imports credited to England by the dominions and colonies and finally by Lend-Lease shipments. Of her holdings of dollar and gold resources on August 31, 1939, \$4,483 million, Great Britain had spent \$2,316 million by December 1940.⁹ Her anticipated holdings on March 1, 1942, taken at only \$547 million, brings the total expenditures to the present up to \$3,936 million or nearly £1 billion. Credit balances¹⁰ of Canada, India, Malaya, North Africa and New Zealand amounted in the winter of 1941 to £423 million, this total being arrived at after a certain part of British investments in these countries had been repatriated. (These balances, invested in pounds, represent a part of the short-term debt and thus form a stable item.) Thus a considerable part of Britain's war expenditures were financed by using resources from abroad. The volume of supplies increased, but these expenditures *did not generate on the whole new incomes in Great Britain* as normal production in England would have done. The result, therefore, was *anti-inflationary*. In spite of the large reduction in British foreign assets, these supplies will continue insofar as shipping facilities permit. They will originate principally from two sources: from Lend-Lease aid and from credit granted by the Dominions. (Canada granted a gift of \$1,000 million and a loan of \$700 million for the year 1942.)

Nevertheless, as war production must be ever increased, conversion from peace to war production will constantly continue and constant efforts will be necessary to close the "inflationary gap". Even Mr. Keynes' excellent plan of "deferred payment" did not foresee the

⁹*Federal Reserve Bulletin*, December 1941, p. 1222.

¹⁰*The Economist*, January 3, 1942, p. 14.

intensity of war's impact and would have to be considerably altered to meet the changed situation. Therefore, proposals are being continually advocated which, if realized, would mean a complete *regimentation of consumption, stressing rationing as the true remedy against inflation*. Mr. Kalecki¹¹ suggests rationing retail spending in the aggregate by food value, introducing "expenditure rationing". In his opinion, this would create a comprehensive and equitable system of distributing goods of a limited supply, although it would probably be desirable to include in the rationing system some additional categories of non-food goods and services. Other proposals of a similar kind call for a complete rationing of the purchasing power of each consumer strictly in proportion to the size of his family. This is being suggested in a time when labor already complains that income taxes have taken away any incentive for overtime work. Obviously, the enforcement of such a system would entail a direct allocation of supplies and would make the whole system perhaps less flexible than Germany's. The social, psychological and economic implications of this question are beyond the scope of this paper, but they must be taken into consideration.

The fight against inflation in Great Britain will go on and according to the British tradition we may expect that they will continue the present policy. The results up to this time should not be underrated. Professor Pigou¹² estimates the inflation up to the end of October 1941 at 20% (with an increase in national production of from 10 to 15%); the rate of money wages rose 21% between September 1939 and May 1941. He rightly sees no threat of a galloping inflation with only 20% inflation in nearly two years of war.

IV.

After December 7, 1941, the economy of the United States started the full mobilization for war, including the conversion from peace to war production. During the year 1941 the index of industrial production rose from 139 to 164, total national income from \$77.2 billion in 1940 to \$94.5 billion in 1941. In the United States the increase in national income was greater than that in the total war expenditures, which made possible a *higher standard of living than previously despite growing defense expenditures, and this without consuming a part of the huge accumulated stocks*. The general wholesale price level increased until January 1942 by 30% and the cost of living by 15% over the low point

¹¹M. Kalecki: "Inflation, Wages and Rationing", in *The Banker*, London, 1941.

¹²Op. cit., p. 447. Contrary to the case in Germany, the market of common stocks does not show inflationary symptoms. The index of common stocks, which in August 1939 stood at 75.3% was 79.7% in December 1941 and 78.6% on February 14, 1942.

of August 1939. The greater part of this rise has occurred since March 1941, reflecting and anticipating the increasing disparity between available supplies and the growing volume of demand. Direct price controls have been inadequate in preventing sharp advances in the cost of living.¹³ Of the 28 basic commodities included in the Bureau of Labor Statistics index, only 19 had price ceilings in effect as of February. (Ten of these had been introduced since December 7, 1941.) The number of ceilings on goods in the broad index of 900 wholesale prices, in February reached a total of 100. In the financial field, out of a total expenditure in the year 1941-42 (nearly 6 months of it not in the war) estimated at \$30,576 million, \$11,944 million (or 39.1%) is expected to be met from revenues.¹⁴ The estimates for the year 1942-43 are: total expenditures \$58,928 million with \$23,487 million covered by revenues.

The wide gap in this program of financing the war, plus the growing war production with its stimulus on incomes, makes the *problem of checking inflation acute and urgent*. There is much left to be done in this field. More than in other countries, tremendous accumulated inventories (estimated at \$30 billion) will help in this program, increasing available goods and absorbing purchasing power without generating new incomes. It is estimated that the national income will go up to \$113 billion in 1942, with war expenditures estimated at \$47.2 billion. This leaves \$66 billion for civilian consumption (more than the total national income in 1938 or in 1936). By using a part of the goods available in stock, no large general reduction in consumption would seem necessary. But there is no such planning in total war. There still remains the problem of \$66 billion of goods plus stocks balanced against \$113 billion in income. To prevent a further increase in prices it is necessary to synchronize the volume of purchasing power with the volume of goods available. Although the volume of goods may seem satisfactory, effective demand is steadily increasing and must be diverted, if an uncontrolled inflation is to be prevented. As Mr. Morgenthau put it, the way to prevent inflation is to prevent people from engaging in the futile effort to buy more goods than can be produced.

In fighting inflation the United States can learn from the experience of other countries. It is clear that inflation can be controlled adequately only on the basis of a *comprehensive, national policy*, including not only a resolute financial and monetary policy, but also a definite national

¹³*Federal Reserve Bulletin*, March 1942, p. 196.

¹⁴*National City Bank Bulletin*, 1942, p. 33.

price and wage policy. Those who overestimate the country's resources and underestimate the impact of total war still think that a general expansion of production will suffice. But time is too urgent for any planning of that kind. Therefore, even the system of selective price control instead of a comprehensive one will not be adequate. The adherents of a selective price control suggest that surplus purchasing power be diverted to luxuries, even though the price of those articles should rise. They fail to realize that purchasing power thus used does not disappear from the market; it merely changes hands. Furthermore, because of the interrelation of prices, higher prices will not remain isolated in one segment of the economy but will spread to other goods and services.¹⁵

On the other hand, the United States is undoubtedly in a superior position with regard to potential expansion of production of food and of many other commodities, if various bottlenecks can be overcome and the labor problem solved. An increase in supplies is also possible and desirable by purchase from Central and South America. This potential strength must be taken into consideration in planning any war economy organization. The problem is to arrive as speedily as possible at maximum war production without increasing the cost of living or reducing materially the flexibility of the American economy, a factor vital to the achievement of a greater volume of production. Less than any other economy, could or should the United States be subjected to inflexible regimentation. Inflation and a price rise can be controlled without taking such extreme measures. The United States is in a better position than Great Britain for the task of checking and controlling inflation, but a comprehensive anti-inflationary program must not be further delayed.

* * *

What is the aim in fighting inflation? Is it to freeze absolutely the price and wage level? As we have tried to illustrate, in a war economy with increasing monetary income and a declining volume of goods available for civilian consumption (with growing scarcity of goods) this can be achieved only at the price of complete regimentation of consumption, perhaps through directly allocating commodities or rationing spending power. This means, to all intents and purposes, the introduction of a national economy with the whole system completely rigid. And it is debatable whether such rigidity would not for many

¹⁵The producers and sellers of the uncontrolled goods are making higher profits; they will pay higher taxes and perhaps increase their saving. Thus a minor part of surplus purchasing power is diverted to the government. To this extent it helps in fighting inflation.

reasons hamper the total war effort which, after all, is the main objective.

What can and must be achieved, however, is the control of inflation (especially after full employment has been reached), the limitation of its effects and the keeping of prices within definite limits. Various measures already alluded to, and including even a system of a deferred payment of wages, salaries and other incomes, may be used, as well as an equalization policy with subsidies to keep down the price of important consumer goods. In fighting inflation the degree of elasticity necessary for the whole economy can be preserved. Pigou,¹⁶ in speaking of the 20% inflation in England during the first two war years, rightly points out that the disadvantages of a moderate inflation are not serious. (He adds that there is a positive advantage involved, in that the budgetary problem after the war is simplified if money incomes have been raised to a higher level than before.) Pigou is correct also in his conclusion that if Great Britain continues to do as well as hitherto in checking inflation, the Chancellor of the Exchequer will have no reason to be dissatisfied. But we must emphasize once more that the fight against inflation must be a continuous one, using manifold devices adjustable to the sudden changes and surprises which war brings. It is better to overestimate war demand and to underrate economic capacity, especially with regard to the time factor, than to err in the opposite direction. The democratic powers, with their larger economic resources and greater potentialities, have a better chance in the fight against inflation. The whole trend is now moving in the direction of pooling the resources of the United States, Great Britain and the British Dominions. Since the preventing of uncontrolled inflation is extremely important for achieving an efficient war economy, a *common anti-inflationary policy* should form a part of the common economic strategy. The best support that a government can receive in this fight is the general conviction that everybody must share in the sacrifices (there is no escape in total war), a feeling of solidarity and co-operation based on a patriotic determination to win the war.

¹⁶Op. cit., p. 447.

SALVAGE IS FUN!

GEORGE McDOWELL

WHAT a change! The man who used to talk "Salvage" was pictured as a bewhiskered individual, pushing a home-made wagon, the two handles of which were salvaged from defunct lawn mowers.

Today, he is an important part of any large organization and looked on as a peculiar individual with a knowledge of his subject that no one else knows anything about. The latter part of that statement is perfectly true. No one knows anything about it. Only a few executives exist—and these are mostly connected with the metal trades—who, prior to this, knew anything about the value of salvage, or the mission it fulfills in our daily lives.

The writer knew no more about salvage, a comparatively few months ago, than anyone else, but he is also Purchasing Agent for a large business institution, and one of his responsibilities is to see that the business has sufficient paper, string, boxes, etc., to package deliveries to customers. It took a few shocks to make him realize that there were not unending streams of supplies, and that maybe he might not be able to order in shipments, and get all he ordered. Consequently, the establishment of a salvage section seemed to be feasible and, to make a long story short, vital.

The handling of the salvage division had all the appearances of a chore, something that must be done whether you liked it or not. Certainly, it was never expected there would be any fun in the process, but fun there is—and novelty—and discovery.

It was fun to find out that, when packages are opened, it takes longer to crumple up the Kraft wrapping paper in the old-fashioned way than to fold it over flat and pile it in a heap where it can be used again. There was the fun of discovering and learning where Canada's immense output of paper is going and how it is being used in novel ways in wartime industries, and how the scrap eventually finds its way back to paper again.

We salvaged and used a small amount of Kraft wrapping paper and we baled the balance, most religiously; when we saw the cheque coming in for baled waste, we felt righteous. We were doing our bit. But one day, we awoke to the fact that the baler was not salvage at all. All we were doing with the baler was to return the paper to the channels of trade so that, eventually, it would become paper again. It was again fun when we realized that, if we could use that paper in its original form and to its original intent, we should actually save the making of a piece

of paper, thereby helping the paper mills and that, after the paper had been used and re-used, and was then in a condition where it could not be used again, it still could go to the baler and—amazing!—was still worth just as much as the brand new scrap we had been baling.

We carried our investigation further. A lot of boxes are received from vendors. Could we make use of these? It was fun to find out that many of these boxes could have a new label pasted on them to be re-used for local delivery, and even for taking packages. It was also fun the day we discovered that, when boxes were broken, we could break them down still further and, with the aid of a simple cutting machine, cut them into strips of cardboard, making excellent cards for the protection of pieces of silk, cotton dresses, and hundreds of other uses. We also learned that the residue cut from these boxes could go to the baler and perform a useful function, and we also had the inner satisfaction that these cards etc. would eventually find their way into someone else's baler and be used again.

As a natural sequence, corrugated cartons were studied. We find a great many people like to display their prowess by punching a fist through the top of a carton. This may convince the experimenter that he can "take it", but it also ruins the carton for further use.

We now ask everyone to open the carton by removing or cutting the tape on the top and bottom and say to them severely "Do not remove the side tape. Do as we have instructed, then flatten the carton out, pile it in a heap and it is good for another trip."

It was fun to find out that corrugated cartons will make 10 or 12 trips, and also fun to realize that you have relieved the pressure on the carton mills to the extent of 10 or 12 new cartons by doing so. Likewise, after our carton has lived a strenuous but patriotic life, it is still worth as much in the baler as the first day we saw it.

We discovered how to take broken corrugated cartons and chop them up into lids to make other cartons usable. It was fun to find out that there is an almost unlimited use for packing pads made from pieces of broken corrugated cartons. For instance, we know of nothing better for shipping gramophone records than a square cut from a corrugated carton, if it is made a little wider than the record. Long corrugated pads are also wonderful for delivering rhubarb (if the corrugation runs the long way). An ordinary light carton of eggs may have an outside wrapping of reclaimed corrugated board and arrive at your house in

perfect shape. Nothing could be better to wrap around drug bottles, table lamps, china ornaments—uses unlimited.

Every day we find a new outlet for corrugated pads; the amount of scrap that goes to the baling machine is getting less and less, and the amount we are demanding from the carton mills for packing pads is becoming equally less.

We could meditate for hours on the peculiarities of people regarding salvage in general. Let us illustrate with one particular item. No one in the world can pick up a piece of flat tissue paper and resist the impulse to make a baseball out of it. The one who will pick it up and save it flat may exist—the writer doubts it. He has never met him. It is fun to ask people why they crush it—no one can tell you but, even after admonishments and lectures, they still want to do it. A piece of tissue paper, in a parcel delivered to your place, is usually crushed to some extent, but ask almost anyone to use a slightly crushed piece of paper as inside packing on a parcel going to a customer, and they will tell you instantly, and authoritatively, that the customer will object. The customer does not object—the customer never notices it because it is impossible to tell whether the crushing happened on the way out, or previously.

We had a lot of fun with string—we are still having it. One of the most difficult problems is how to salvage this. We would like to forget the whole business when it comes to salvaging string, but the Government will not let us . . . We have been rationed. On Sisal, for instance, we have been cut to 75 per cent of what we had last year. How are we going to do it? It is practically impossible to untie and salvage cotton twine because the knot simply will not budge in the untying process, but we did learn that you can cut the string close to the knot, and often reclaim pieces a yard long or over. If you can do that—you are really salvaging! It was fun to find out how many new parcels required less than that length.

Jute string is a nice soft string—or was. It came from India—or did. Future shipments—who knows?

Sisal, or Marline, as it is sometimes called, is a very tough product. A small percentage of this fibre is grown in Mexico. A staggering proportion came from the island of Java. It was fun to find that out . . . but it was not funny to think about further supplies. Sisal, or Marline, whichever you like to call it, has, however, a redeeming feature. You can untie it and it is not very hard to do. If the "packagee" has tied a great number of knots on the incoming package, cut the string close to the finishing knot. It is quite easy to untie the cross knots on the rest of

the package and, as this string is usually used on large containers, you get a very satisfying length of reclaim without too much bother. It takes time to untie these parcels . . . yes, but do not forget about that Government 25 per cent cut. You have to fill it in. You will find that it takes less time to untie the knots than to find a substitute for the missing percentage, especially as the shortage will likely become apparent during the Christmas rush, when you haven't time to untie anything.

We knew we ought to save rubber—so we did. We have a shoe repair department. . . . Imagine our amazement when, in a very short time, we collected 500 or 600 pounds of worn rubber heels! It was fun to think that some big executive, lacking gasoline, will ride to his private office, some day, on a bicycle tire, made from the rubber heels we saved. We gladly collect galoshes, rubbers, formerly so-called "junk", with a patriotic fervor, knowing that, some day, they will reappear in a usable rubber article.

When we were at it, we thought we might as well collect bottles. We run several restaurants in our business. Catsup, pickle, and preserves bottles began flowing in. At the moment of writing, we have not solved the bottle problem, but we are having a lot of fun finding out what happens to old bottles. Even broken bottles are good. If they are white glass, they can be melted and made into good glass again, replacing some of the shipments which used to come from Belgium.

We save "Crown" corks (pop bottle tops) because not only the metal, but the cork lining, can be salvaged. We do not know how—but we have been assured that it is a worthy effort.

We did not let our investigation stop with packing supplies. We started to query office supplies. We learned some amazing things. How many filed papers are ever looked at again? If you re-read more than 10 per cent of what you have in your files, you are not an average business man, according to the standards. If this is right, about 90 per cent of your incoming correspondence should be filed in the paper baler, giving impetus to the war effort and making it unnecessary for you to buy filing cabinets.

It was fun to find out that, if you have branches, or inter-company correspondence, you can usually turn the corner up, write a concise answer in pencil and forward the original communication to the sender. It was fun to find out how he liked it. He did not have to look in any file to find out what you were answering. His letter to you and your answer were right in front of him. Where it is necessary to keep a copy, we find that, if you turn the incoming letter over and use the back for the carbon copy, you are saving an astonishing amount of filing space,

and much time too. The letter you get and the answer you send are all on the one piece of paper . . . amazing, isn't it? . . . but we did not do it before.

In writing to customers, we are not using both sides of the letter-head—not yet, but the idea is becoming popular and we will follow suit when wisdom dictates.

We used to send out memos and notices for inter-business use . . . they never left the building—they were not confidential—but we used envelopes and typed the address on them, and solemnly sealed them—just the same.

Now we fold them over, the same as if you were going to put them into an envelope, tuck one section in behind the other and address them either by hand, typewriter, or addressograph . . . they will all work. It is fun to find out that they all get to their destination, just as surely as they did before. Where an envelope is necessary, we do not seal it any more. We tuck the flap in. If possible, we use a house message envelope, —one of those gadgets which has been invented to take 20 or 30 trips before all the spaces are filled in. We used to staple these house message envelopes. We are now trying to stop that because we do not know when our supply of staples will be cut off. In fact, we almost hope the supply will be cut off, so we can convince a lot of people that they do not need to staple an envelope which contains no secrets.

Does your place use a great many blotting pads on the desks? We used to buy thousands of sheets of blotting paper for these pads . . . a Purchasing Agent's headache, because, if your blotting paper is hard enough to write on, it certainly is too hard to blot on without smudging. Try this the next time you are worried about it. Get a piece of ordinary thick, floor linoleum (19x24 is the usual blotting size), have the linoleum cut that size, round the corners, and either put it in your blotting paper holder, or put it on the desk without a holder. It is equally good either way. Then, get yourself a very small piece of good, absorbent blotter. You have something worth crowing about when you have that. You have a good writing surface and a good piece of blotter that won't smudge. In addition, when your pad gets dirty, try a little soap and water. If you are extra fussy, use a little floor wax, or furniture polish, and it will shine like "a nigger's heel".

Maybe after reading all this, you still belong to the old school . . . maybe salvage is still junk to you . . . but take my tip. Start delving into salvage and your geography will improve, your disposition will become sunnier, you will learn that necessity is still the mother of "pat. pending", and you will certainly agree that "salvage is fun".

SMALL BUSINESS ENTERPRISES IN AN ALL-OUT WAR ECONOMY

ELDON C. SHOUP

SMALL business may rightly be termed the infantry of the economic war front. As wars are not won by tank and air assault alone so it can be said, a long war of production cannot be won by the giants of industry without benefit of the holding force represented by small business. And this promises to be a long war.

As this is being written America is passing through the transition from mobilization for defense to a state of all-out war. The principle has been accepted that the economy will be warped to the extent required by military needs. Yet the application of this principle is in itself a pioneering process. Major policies affecting the economic life of the country are in constant debate. Upon the turn of these policies rests the fate of great numbers of small enterprises as the war passes into new stages. Finding his new place presents the manager of the business in the small or medium-size brackets with the most bewildering problems in his experience. Some of these problems and their causes will be examined in following paragraphs.

How Small Is "Small Business"?

A discussion of this general topic should include some definition since concepts of the scope of small business vary widely. Any reasonable dividing line will make it clear that small business constitutes a very important segment of the American business community.

The 1939 census of the Bureau of Foreign and Domestic Commerce estimates that there are more than 2,750,000 small business establishments in the United States.¹ Over 8,350,000 people are engaged as employers and employees in these enterprises. Relative to total business in the country, the Bureau classified 93 per cent of the business concerns of the country as small. Small units account for 45 per cent of the workers and 34 per cent of the business (see Table 1).

"These small businesses can be segregated into 169,000 industrial concerns, 72,000 wholesalers, 1,614,000 retailers, 638,000 service organi-

¹Business of the following sizes were classified as small: manufacturers with one hundred or fewer employees; wholesale establishments with \$200,000 or less in annual sales; retail stores, service establishments, hotels, construction firms, and places of amusement with sales or receipts of \$50,000 or less. All figures cover 1939—from a statement by C. C. Fichtner, U. S. Department of Commerce, presented before the Special Committee to study Problems of Small Business, United States Senate, December 18, 1941.

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zations, 200,000 construction companies, 40,000 places of amusement, and 25,000 hotels." (Table 1.)

Among the 169,000 small manufacturers, probably more than 45,000 in the metal working industries can be converted to wartime use. Of the remaining small concerns, some may be partially used in wartime production, but to a much lesser degree. Most of these small businesses can contribute most to the wartime program by producing goods essential for civilian uses.

Conflicting Considerations of National Policy

Public opinion is undoubtedly favorable to the cause of small independent enterprise now as it has been during peacetime. The public looks upon the post-war survival of a healthy, small business structure as a bulwark against over-concentration of power either economic or political. Yet public opinion more than anything else wants the speediest possible mobilization of business for war. The predominance of this latter view since the attack on Pearl Harbor has overshadowed those forces in public policy making, which would normally favor measures to protect small business for its own sake.

The process of converting small manufacturers from production of civilian to war goods has been handicapped by indecision regarding the potential capacity of such firms for quick performance. Some have believed that war production could be speeded most by expanding larger plants already engaged on war orders. Others have argued that wide distribution of orders among small plants would serve both the need for speed and high level of sustained production. Something like a compromise has resulted thus far. Conversion of smaller plants is gradually taking place with a certain amount of lag between the shutting off of civilian production and its replacement by war production.

Currently legislation is pending which would establish a Smaller War Plants Corporation with capital stock of \$100,000,000, authorized to make loans or advances to enable small business concerns to finance plant construction, conversion or expansion, to finance the acquisition of equipment, facilities, machinery, supplies or materials, or to provide such concerns with working capital to be used in the manufacturing of essential articles, equipment, supplies and materials.

This proposed legislation, S. 2250, which was favorably reported with amendments, to the Senate on March 26 by the Committee on

Banking and Currency, also provides for the certifying to the Reconstruction Finance Corporation, by the chairman of the War Production Board, of the amounts necessary for conversion of small plants to war work, these certifications to include competency, capacity and credit.

The Reconstruction Finance Corporation Act is amended so as to authorize that body to make loans to and purchase obligations of business enterprises for any purpose deemed by the Corporation to be advantageous to the national defense; this amendment also authorizes the War and Navy Departments to participate in or guarantee any such loans made by the Corporation, and to use funds available for procuring war materials, supplies and equipment.

An Executive Order, issued on March 26 by the President, authorizes the War Department, the Navy Department, and the Maritime Commission to guarantee or make loans when they are needed for war production. These guarantees will support the operations of the banks, the Federal Reserve System, the Reconstruction Finance Corporation, and other credit agencies. They will not, it has been announced, be made under peacetime credit rules, but will be made by production men whenever additional financing is essential for additional production.

These current measures should be construed as efforts to speed production, not as devices for subsidizing small enterprise because of its smallness.

War Presses Unequally on Large and Small Business

Two sets of factors tend to the disadvantage of small enterprises. First are those resulting directly from federal actions such as priorities, war contracts, financing of facilities and price controls. Second are forces inherent in the profit system itself and which are made operative by the seller's market condition. Chief among factors in this latter group is the widespread practice of customer selection.

In the distributive trades, prior to Pearl Harbor, readjustments of small business were slight and were generally more than offset by gains in the general level of business activity. Now, however, the rationing of tires and automobiles and the curtailment of durable specialties such as household appliances is seriously affecting the thousands of garages, tire and accessory dealers and appliance stores dependent upon these lines for continued operation. Small firms in the distributive field are less able to withstand the changes wrought by the war than their larger competitors such as department stores and mail order houses in which inter-departmental adjustments can partially offset losses in restricted lines.

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The war crisis places a premium upon abilities of re-orientation which small firms lack in large measure. Shortage of a raw material, for example, often hits the small manufacturer before he realizes it is coming. His contacts with commodity markets and governmental sources of information may be inadequate. Not having a specialized staff he is usually at a disadvantage in investigating and planning sources of supply, changes in materials or finished products. Usually the small firm carries a smaller inventory in proportion to needs and when the supply is cut off must quickly stop processing.

Small bakers, confectioners and soft beverage bottlers, for example, have been seriously handicapped under the sugar quota plan for the above reasons. Mainly hand-to-mouth buyers, they have been forced to curtail production. Larger operators, particularly those controlled or owned by national food distributing organizations, are said to have accumulated sugar stocks which support continued operation until the rationing process smooths out.

Another way in which sweeping controls affect small firms more adversely than large lies in the lack of accommodation of these controls to the operating conditions of small business. Those who draw up the details of control plans seldom know the operating limitations and peculiarities of small enterprises. Plans gauged to control supply, production or price in a whole industry are likely to be guided by the economics of the industry and by the better known operating methods of large corporations. Some of the hardships on small firms could be avoided by a larger representation of small business among the framers of each new control plan.

Selective customer selling, amounting to outright discrimination in many instances, has been reported with increasing frequency during recent months. A war-created seller's market unavoidably provides the favorable conditions for this practice. It is widely employed by sellers of goods and services from banks to retail grocers. Under the profit system small firms as well as large exercise their privilege of favoring those customers whose patronage is profitable now or promises to expand in the future.

The position of the grocery wholesaler with a rationed supply of sugar to sell in January 1942 is far different from that in January 1941. Sugar in itself carries small profit. His other grocery lines are more profitable. Hence he favors those customers who will buy a maximum quantity of other lines along with sugar. Bakers, confectioners and

other "processors" of sugar, who are relatively small users of the wholesaler's other lines, are finding themselves hard pressed in securing sufficient supplies.

Builders of residential houses, because of the limitations placed upon material, have been finding credit extension by banks and suppliers growing progressively tighter. Here again customer selection has militated against the smaller operator. His poorer financial position and his smaller "value" as a present and potential customer, under seller's market conditions are hastening his doom, whereas he would be courted zealously by these same suppliers and loaning agencies under normal business conditions.

A quotation from a recent issue of a business magazine illustrates how very widespread the practice of favoring larger customers will become. "Tires are rationed and salesmen's cars are classified as non-essential. Prepare to travel your men by bus and railroad. Classify your accounts to eliminate personal calls on all except the most important."

Profit-wise, the above is sound business advice. Also from the standpoint of conservation of tires, gasoline and man-hours it is in the interest of the war effort—unless too many small wholesalers and retailers close, thus forcing consumers to spend excessive amounts in reaching new sources of supply.

Illustrations of the principle involved here could be multiplied. The necessary direct controls imposed by the Government at war result indirectly in dislocations among small businesses of a variety and on a scale baffling to comprehend. One control regulation begets several more new ones. In this area of accommodating the major, basic controls of Government to alleviate or smooth out the secondary but dangerous effects on small business enterprises, lies one of the big tasks of the war years.

Small Business Must Help Itself

In attacking its problems of war adjustment small business must first of all grasp the significance of the nation's controlling all-out war policy. This is a policy of necessity. It attempts to order each segment of the economy in accordance with its capacity to contribute quickly to full war mobilization.

"Small Business" is a horizontal classification or stratification. As such it includes manufacturers of essential and non-essential goods; processors of scarce war-needed materials as well as processors using plentiful materials. It includes more than 90% of the establishments in all wholesale, retail and service trades.

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Out of the pattern of wartime control measures affecting raw materials, prices, labor, transportation and conservation, each trade and each firm must shape for itself the course of action which harmonizes. Not only must it have reference to the regulations currently in force but it has the further difficult task of anticipating the time-table of new conditions still to come. This in the aggregate is an assignment which is taxing the resourcefulness of small business managers to the full.

Numerous agencies are using their resources to augment the efforts of small business operators in the process of re-orientation. Those trade associations whose membership is predominantly of small firms are giving special attention to war problems. In certain regions Small Business Associations are actively studying problems of adjustment. They have been helpful in reporting to Washington the impact of control regulations and in some cases in assisting with new or modified regulations. They have sponsored meetings of small business operators in their local areas at which Government officials have interpreted rulings and answered questions. Chambers of Commerce and state-appointed committees, among others, have rendered special assistance.

For many years the U. S. Department of Commerce has devoted a large part of its resources to the normal problems of small business. Early in 1941 the Department's thirty-one field offices were re-grouped with a regional headquarters at each of twelve Federal Reserve cities. In order to enlarge its assistance to businessmen primarily on problems of domestic trade and production, business consultants were located in the regional cities. A large part of the energies of these consultants is devoted to giving assistance to small businesses and their organizations on war adjustment matters. Secretary Jesse Jones, foreseeing the importance of small business activities, also created a Small Business Unit in 1941 as part of the Department of Commerce.

With all the help that can be mustered for his benefit it is evident that the small business operator must take the initiative in solving his wartime problems. The small manufacturer must adjust his business to war production or to essential civilian production or face the loss of labor and materials. The wholesaler and retailer must take account of shrinking supplies of goods and impending labor shortages in budgeting operations on a modified scale. Small businesses in years ahead will be dominated by forces outside their businesses and largely outside their control. Co-operating agencies can be instrumental in interpreting national programs to them, but individual business managers themselves will carry the initiative.

TABLE I.—SMALL VERSUS LARGE BUSINESS, 1939

UNITED STATES TOTALS FOR MANUFACTURING, WHOLESALING, RETAILING, HOTELS,
AMUSEMENT AND CONSTRUCTION

Industry of Trade	U. S. Totals			SMALL BUSINESS ¹			—RATIO OF SMALL— BUSINESS TO U. S. Total		
	Estab- lish- ments ²	Personnel ³	Value of Output (000) ⁴	Estab- lish- ments ²	Personnel ³	Value of Output (000) ⁴	Estab- lish- ments ²	Person- nel ³	Value put ⁴
Manufacturing	184,230	7,886,567	\$ 56,843,025	168,814	2,358,968	\$17,366,697	91.6	29.9	30.6
Wholesaling	92,794	912,548	19,418,547	71,681	355,731	4,100,404	77.2	39.0	21.1
Retailing	1,770,355	6,210,788	42,041,790	1,614,310	3,487,984	17,836,171	91.2	56.2	42.4
Service Establishments	646,028	1,754,538	3,420,417	637,685	1,294,724	2,241,709	98.7	73.8	65.5
Hotels	27,987	362,047	863,155	25,224	111,183	229,163	90.1	30.7	26.5
Construction	215,056	1,300,448	4,519,638	200,307	610,740	1,546,891	93.1	47.0	34.2
Places of Amusement	44,917	257,200	998,079	40,351	145,641	332,837	89.8	56.6	33.3
TOTAL	2,981,367	18,684,136	\$128,104,651	2,758,272	8,364,971	\$43,653,872	92.5	44.8	34.1

¹Small Business: Manufacturing plants with 100 employees or less; wholesale establishments with less than \$200,000 annual net sales volume; retail stores, service establishments, hotels, places of amusement, and construction establishments with annual net sales or receipts of less than \$50,000.

²Number of establishments.

³Proprietors and employees, except for manufacturing which includes just manufacturing employees.

⁴Value of products for manufacturing; net sales of wholesalers and retailers; net receipts of service establishments, hotels, construction and places of amusement.

Source: Computed from 1939 Censuses of Manufacturers and Business.

COLLECTIVE BARGAINING

ANGUS MacINNIS, M.P.

IN an attempt to equalize the bargaining power between themselves and their employers, workers have, from the time men first began to work together in large numbers, endeavored to organize in unions or associations. The union or association would, in all matters relating to wages and working conditions, bargain with the employer on behalf of all the workers in the trade, shop and industry. This system has come to be called collective bargaining. Employers generally and everywhere at first resisted the efforts of their workers to organize, and laws were passed declaring membership in such organizations a criminal offence. In most democratic countries, the fight for the right to organize has now been won. In Canada, however, although the legal right to organize is recognized, the struggle between employer and employee still rages.

Strange as it may seem some Canadian employers, while urging vociferously and energetically the necessity of destroying Nazism before it destroys our liberties and hard won rights, refuse to cede to their employees the elementary right to a voice in determining the terms under which they will sell their labor. In other words, certain Canadian employers insist on maintaining in that field of social relationship over which they have control, the totalitarian system which Hitler first imposed on the German people and is now trying to impose on the peoples of the whole world.

In Great Britain, Australia, and New Zealand, labor is much better organized than it is in Canada. In those parts of the British Commonwealth, the matter of the recognition of trade or industrial unions is no longer an issue. Disputes, when they do arise, are over specific questions of hours, wages, or working conditions, but hardly ever over whether the employer will deal with the bargaining agency the employees have created.

Occasionally, however, even in Britain an employer adopts an anti-social attitude. A case recently came to my attention where a British employer insisted that he had the right to run a non-union shop. A court of inquiry was appointed under the Industrial Courts Act of 1919. The court, after hearing evidence from both sides, found that the fundamental cause of the dispute was the "stubborn refusal of the management to deal with the union", and stated that such an attitude was bound to lead to a dispute and a possible stoppage of work—which had in fact occurred. Without union recognition, the court said, "it is difficult to see how the girls could show their sympathy with the dismissed girl

without some form of demonstration". The court further said that without collective bargaining other troubles would no doubt arise and recommended to the company that it adopt the well-tried method of recognizing and dealing with the union, because it is a duty to the country "to fall in line with the vast majority of other good employers and assist the Government in the accepted method of conciliation".

In June, 1940, the Government of Canada by an Order-in-Council gave its approval to the principle of collective bargaining by the passing of Order-in-Council P. C. 2685. The important sections of this Order-in-Council are:

6. "That employees should be free to organize in trade unions, free from any control by employers or their agents."
(Attention was drawn to a section of the Criminal Code which makes it an offence for any employer to dismiss or refuse to employ any person because of his membership in a trade union.)
7. "That employees through the officers of the trade unions or through other representatives chosen by them, should be free to negotiate with employers or the representatives of of employers' associations concerning rates of pay, hours of labor and other working conditions with a view to the conclusion of a collective agreement."

This order, however, is merely a statement of principles and is not mandatory. It has been ignored both by the Government and by some employers.

Although there are no provisions in the Industrial Disputes Investigation Act for determining what organization shall constitute the bargaining agency for the employees in an industry, a practice has developed in Canada of having a vote of the employees taken under the supervision of a representative of the Department of Labour. This is a procedure adopted from the United States and would appear to be necessary in this country, because of the division in the ranks of labor. The determining of the bargaining agency in the United States is provided for by law and the choice of the workers concerned is limited to one of the two recognized labor bodies: American Federation of Labor or Congress for Industrial Organization. So-called company unions are not recognized—indeed such unions are outlawed and employers may be compelled to desist from giving support or recognition to such organizations.

In Canada company unions are recognized by the Government and their formation encouraged. The case of the National Steel Car Company, a Government-controlled plant, is typical of Government attitude.

When the management of the plant and the Hon. C. D. Howe, Minister of Munitions and Supply, found they could not prevent the Steel Workers Organizing Committee from organizing the workers in the plant, Mr. Howe announced that in Government-owned plants, at least, two or more employees' organizations would be recognized. This is an open invitation to employers to encourage the organization of their workers in associations other than the recognized trades and industrial unions.

In addition to P. C. 2685 a number of other Orders-in-Council relating to industrial disputes have been passed since the beginning of the war. The resultant effect of these Orders-in-Council, however, has been gradually to whittle away such rights and privileges as were by custom and law built up over the years by Canadian workers in their efforts to achieve collective bargaining.

In November of 1939 Order-in-Council P. C. 3495 extended the application of the Industrial Disputes Investigation Act to industries engaged in war production. Prior to the outbreak of war, the operation of the Industrial Disputes Investigation Act was restricted to certain transportation and public utility undertakings. Under the act either party to a dispute could apply to the Federal Department of Labour for a Board of Conciliation and Investigation. The findings of the board were not binding on either party and a strike or lockout was forbidden until the board had finished its work and presented its report to the Minister of Labour.

In June, 1941, the Government by Order-in-Council P. C. 4020 created another investigating body—the Industrial Disputes Inquiry Commission. Apparently, the purpose of the Government in creating this commission was to provide a less cumbersome and more expeditious way of dealing with disputes than the procedure provided by the Industrial Disputes Investigation Act. It was soon found that the commission was not functioning very satisfactorily for in less than a month from the time it was passed, the Order was amended by P. C. 4844. As amended the Order gave the Minister of Labour power to direct the Industrial Disputes Inquiry Commission to examine into complaints made by workers in regard to discharge or discrimination on account of union membership or activities or charges of intimidation or coercion made against the union or its officials.

I think it is fair to say that from the commencement of the war to the present time resentment against the Government among organized and unorganized workers has been steadily growing. This statement is borne out by resolutions unanimously passed at the annual conventions

of the two major Canadian labor bodies since 1939. There are two reasons for this resentment. (1) The refusal of the Government to make labor a partner in the war effort, and (2) the continual whittling away of labor's rights and privileges by Orders-in-Council without prior consultation with the accredited representatives of organized labor. This state of affairs has in its turn two underlying causes: (1) Until the appointment of the present Minister of Labour a few months ago, there was no member of the cabinet who had any experience in or knowledge of the labor movement. (2) Too many of the staff of the Department of Munitions and Supply are dollar-a-year men or other persons recruited from big business establishments who because of past environment and training are definitely hostile to organized labor.

The first effective large scale attack on the principle of collective bargaining (P. C. 2685 notwithstanding) and on the legitimate functions of trade unions came with the passing of Order-in-Council P. C. 7440 in December, 1940. In the preamble the order stated that if the Government, through an extension of the principles of the Fair Wages Act, were to attempt to determine wage rates and working conditions in all war industries, arbitrary decisions would have to be made which would render collective bargaining superfluous, and labor organizations would be deprived of their legitimate functions. Whatever may have been the wish and intention of the Government, there can be no doubt but that P. C. 7440 arbitrarily and adversely affected the scope of collective bargaining and the customary functions of trade unions. P. C. 7440 took the question of wages practically out of the hands of conciliation boards altogether. Boards were instructed as to the limits beyond which wage increases could not be made.

In addition to that limitation, the order provided that the report of any board must at once be communicated to the Minister of Labour who shall review the finding, and to the extent which in his opinion the report deviates from the principles laid down in P. C. 7440, shall direct a reconsideration by the Board. In other words, the Minister of Labour became the final arbitrator in any labor dispute affecting wages and working conditions.

The history of the Peck Rolling Mills, Montreal, is a good example of the unsatisfactory operation of this order as far, at least, as the workers were concerned. Here was a case where conditions of work were extremely bad and wages low and out of line with the wages being paid by the same owners in other industries owned and operated by them in other parts of Canada.

The wage rate of about fifty per cent. of the employees, married men with families, was 30.7 cents per hour. This was increased by a bonus of 1.3 cents per hour. Few would argue that this is a wage rate which could be called fair and reasonable in any of our larger centres of population. The Conciliation Board, the chairman of which was a well-known judge in the Province of Quebec, however, took the position that it was bound by the provisions of P. C. 7440 to assume that a wage rate of 32 cents per hour was fair and reasonable "because it found that the rate was even higher than the wage rate of 1926-1929, the key years mentioned in P. C. 7440."

In this board's findings (a majority award) there was no claim made that the wage rate was fair and reasonable, but the majority of the board felt it was bound by the provisions of the Order-in-Council so to consider it. The report, as signed by the chairman and the employer's representatives, quotes Section 3 of P. C. 7440, which reads in part:

- "3. Wage rate levels established by agreement or practice . . . during the period 1926-29 or higher levels established thereafter but prior to the date hereof shall be considered generally fair and reasonable except where it is clearly shown that exceptional circumstances . . . resulted in depressed or sub-normal or in unduly enhanced or abnormal wages in a particular industry, trade or locality, a board may adjust rates to what it considers fair and reasonable under such circumstances."

The Board then said, "applying these principles, therefore, in our effort to ascertain whether the wage rate now under discussion before us is one which we must consider to be a fair and reasonable one . . ."

"So that applying this standard, *the wage rate now paid to employees of the Peck Rolling Mills, Limited, would appear to be one which the board is bound by the provisions of the Order-in-Council to consider a fair and reasonable one.*"

Again—

"This we have done and having found the present rate to be higher than 1926-29 we are, we think, bound by the Order-in-Council P. C. 7440 to consider that the rate is a fair and reasonable one . . ."

In another part of the report the board says: "applying, therefore, the standard set up in the Order-in-Council enumerating the wartime wage policy of our Government, we feel ourselves bound to conclude that the wage rates in question . . . are such as must be considered fair and reasonable".

In September, 1941, the Government passed Order-in-Council P. C. 7307 which made it illegal for workers in war industries to strike until a strike vote was taken under the supervision of the Minister of Labour. In view of the use which was made of P. C. 7307 in the Kirkland Lake mines dispute, the preamble of this Order-in-Council is important.

The preamble states that the Industrial Disputes Investigation Act was extended to disputes between employers and employees engaged in the production of *munitions of war and supplies and the execution of defence projects*;

"Therefore, with a view to the avoidance of industrial strife and to the end that the industrial capacity of Canada requisite to the prosecution of the war may be utilized to the fullest possible extent . . . the Governor-General-in-Council, on the recommendation of the Minister of Labour . . . is pleased to make the following regulation . . ."

It should be noted here that the order was passed—

As a means to avoid industrial strife in industries "engaged in the production of munitions of war and supplies and the execution of defence projects".

The provisions governing the taking of a strike vote are these:

1. Employees must notify the Minister that a strike vote is desired.
2. If the Minister is of the opinion that a *cessation of work would interfere with the efficient prosecution of the war*, he "may order or direct" that a strike vote be taken.
3. The vote will be taken under the supervision of the Department of Labour and will be "subject to such provisions, conditions, restrictions or stipulations as he (Minister of Labour) may make or impose".
4. "In any case in which the Minister makes an order or direction as aforesaid,* all employees, who in his opinion, are affected by the dispute or whose employment might be affected by the proposed strike, shall be entitled to vote and the voting shall take place within five days from the day upon which the Minister received notice that the employees desired to take a strike vote."
5. Unless a majority of the ballots of those entitled to vote are cast in favor of a strike "it shall be unlawful for any employee to go on strike".

* This section has been amended since the strike vote at Kirkland Lake was taken.

6. Penalties of a fine not exceeding \$500 or imprisonment for a term not exceeding twelve months, or both fine and imprisonment, are provided for any person who contravenes or fails to comply with the provisions of the order.

The essential features of P. C. 7307 are given here rather fully, because the Order-in-Council is so out of line with the customary procedure in the taking of a strike vote that one is driven to the conclusion that the persons responsible for its drafting must have been ignorant of the ordinary procedure in such matters or prejudiced against organized labor, or both.

As this Order-in-Council was first invoked in the Kirkland Lake mines disputes, it is worth while following its operation in that dispute.

When the Minister of Labour began making arrangements for the taking of the ballot, it was the intention to allow every person in the employ of the mining companies, whether or not they would take part in the strike, the right to vote. That is, everyone having any connection with the mines except the general manager and the board of directors were eligible to vote. This decision resulted in a storm of protests not only from the Kirkland Lake miners but also from other labor organizations and the Minister of Labour excluded the office employees. But many were put on the voting list who could not become members of the union because they did not work in or about the mines.

Another objection to this part of the order is that the vote must be taken within five days from the day on which the Minister of Labour receives the request for the taking of a vote from the employees. The preparing of the list of persons entitled to vote is under the direction of the Minister of Labour. The Minister must receive the names from the employers. The time is too short for the employees to make an effective check of such lists even if they are given an opportunity of seeing them. In any case, in many industries, the workers can have no accurate knowledge of who is on the company's payroll. The custom in taking a ballot in labor disputes has been that only those who would be covered in any agreement which might be arrived at by the parties to the dispute should be allowed to vote on any matters arising out of the dispute. In industries in which the workers are well organized, only those who are members of the union are allowed to vote.

Another amazing provision in this Order-in-Council is that a strike vote does not carry unless a majority of those eligible to vote have cast their ballots in favor of a strike. This is a most obnoxious provision, particularly when voting is not compulsory. If the Government were,

for instance, to attempt to put into the regulations governing the taking of the vote in the forthcoming plebiscite, a provision that every person who did not vote were to be counted as voting "NO", there would be a storm of protests from the people that would soon bring the Government to its senses.

As P. C. 7307 provides that the Minister of Labour will order a strike vote to be taken only when he is satisfied that a cessation of work "would interfere with the efficient prosecution of the war", it must be assumed that the Government considered gold mining an essential war industry. Yet it allowed approximately 3,800 men to be idle for three months, when the only question at issue was the recognition of the union, which had been unanimously recommended by a Board of Conciliation. The recognition of the employees' organization is a necessary requisite to collective bargaining, the principle of which already had the blessing of the Government.

Another factor in connection with P. C. 7307 and which, in my opinion, indicates that the cabinet was convinced before it passed the order that it was not fair to organized labor is that the order was not referred to the National Labour Supply Council, a body created for the express purpose of advising the Government, among other things, on questions of labor-industrial relations.

From the outbreak of war in September, 1939, until October 24, 1941, collective bargaining, that is, the establishing of wages and working conditions by discussion between employers and labor organizations, continued to operate if on a more restricted scale than in normal times. On October 24, 1941, the Government issued Order-in-Council P. C. 8253. This order, practically speaking, freezes wages for the duration. Under this order, labor no longer has recourse to conciliation boards. Wage rates cannot be increased without the consent of the National War Labour Board. This board, and the Regional War Labour Boards, have the status of Royal Commissions and can investigate any dispute. Indeed, one of the functions of the National War Labour Board is to investigate collective labor agreements and if found in any respects to be inconsistent with P. C. 8253 to bring them into conformity. In so far as the determining of wages is concerned, that function of labor unions is abolished. Labor organizations are, however, as essential to the workers in industry as ever they were.

On January 26, 1942, the Government took another, perhaps the final step, in the elimination of collective bargaining by setting basic rates of wages by Order-in-Council (P. C. 629). This order set basic

wage rates for mechanics in all shipyards in the provinces of Ontario and Quebec. In September, 1941, the Government appointed a Royal Commission composed of three lawyers, Senator Leon Mercier Gouin, K.C., of Montreal, Vincent C. MacDonald, K.C., of Halifax, and F. H. Barlow, K.C., Master of Supreme Court of Ontario, to inquire into the wages and working conditions of workers in shipyards in the two central provinces.

Although the Royal Commission was appointed to investigate the wages of workers in an important industry, labor's representatives were not consulted prior to the appointment of the commission nor did labor have any representation on the commission. It is not clear what particular qualifications these eminent lawyers had that would make them expert in determining wages in the shipbuilding industry.

The Government, in any case, disregarded, at least in the matter of wages, the report of its own Royal Commission, which had been hearing and considering evidence in the matter for three months. By Order-in-Council (P. C. 629) the Government set basic wage rates which on the average are five cents per hour less than the recommendations made by the commission. This Order-in-Council also was passed without any prior consultation with the representatives of organized labor. The two operative sections of the order are given below and indicate that the fixing of wage rates as far as the shipbuilding industry is concerned will, in future, be by Government decree.

1. The basic wage rates for mechanics and the cost of living bonus for all employees in the shipyards, specified in the statement attached hereto, shall be adjusted as of the dates and in the amounts indicated in each case;
2. The Minister of Labour is hereby authorized to adjust the basic wage rates for *other classifications of employees of the aforesaid shipyards in such relationship to the basic wage rates specified for mechanics and in such amounts as in his opinion, having regard to all the circumstances, are fair and reasonable.*

As far as collective bargaining is concerned the position of the shipyard worker is:

1. A Royal Commission of inquiry and investigation into working conditions was appointed without the shipyard workers or their representatives being consulted. (True, they were informed of the appointment of the Royal Commission after it was set up. They appeared before the commission and submitted evidence and arguments.)

2. The Royal Commission in its report recommended wage rates which were higher than those in effect.
3. The Government, again without consulting the shipyard workers or their representatives, rejected the wage recommendations of its own Royal Commission and promulgated by Order-in-Council other rates lower than those recommended by the commission.

Organized labor in Canada is numerically weak. Out of an industrial wage earning population of over 3,000,000 not more than 375,000 are organized in trade and industrial unions. The strength of organized labor is further diminished by the fact that these 375,000 workers are divided among three different labor organizations. The percentage of industrial workers who are members of trade unions in Great Britain, Australia and New Zealand is much greater than in Canada. In Great Britain more than 75 per cent. of the workers are organized. Then again the workers in Canada have made very little attempt to organize politically and consequently cannot exert on the Government the political pressure which can be and is exerted by organized labor in the other nations of the British Commonwealth.

In a word where strength and power are the qualities which speak the loudest there can be little wonder that organized labor's efforts to be accepted as a partner in Canada's war effort has been successfully resisted by employers and ignored by the Government. When the executive of one of the national labor bodies met the cabinet recently and complained that labor was not given its proper representation on the various war boards, the Prime Minister said:

"Speaking out frankly, I think the criticism made of some of the phases of the Government's activities are very true and fair. I do feel there is more room for labor representation on some of the boards than exists at the present time."

This belated admission, coming from the Prime Minister after the country has been at war and building up a war production organization for two and a half years, clearly indicates strong opposition to labor's aims in the Government.

The opposition to collective bargaining on the part of the employers and the refusal of the Government to give representatives of labor a share in the planning and direction of war industries, has had and is still having a detrimental affect on the country's war effort. The functioning of trade unions is an essential part of the democratic processes. Democratic institutions can only work smoothly when the people have training

and experience in the organizations and administration of all phases of our economic and political life.

It is not enough to say that this is a fight for the destruction of Nazism and Fascism; neither is it enough to say that this war is a struggle for the preservation of democracy, liberty and freedom. We must make these words living facts in our every day affairs. They must stand out bold and clear as so many of the good things of life, now. It is sheer impertinence to tell a man who is trying to maintain a home and a family on an impossible wage, and who if caught trying to organize with his fellows to better his condition, may be instantly dismissed from his employment, that he has any great stakes in the fight to destroy Hitlerism. Such a man is too close to the essence of Hitlerism to be impressed.

The democracies can defeat the totalitarian countries only if they are willing to pay the price. The price is more democracy. We must extend freedom. We must make the common, ordinary man feel that he is not a mere worker, a mere hand in the mill or factory, but that he is a person of some importance and that the country is interested in his welfare. Labor-industrial relations, in either peace or war, must, if they are to be harmonious, be based on collective bargaining.

Any criticism of Government policy made here is not only because of the policy itself, but because labor and labor's representatives were not consulted when the policy was being formulated. The winning, not only of the war, but of the peace as well, demands that the largest possible proportion of the people be mobilized not only to do the work but to take part in the direction of it. The philosophy of—

*"Their's not to reason why,
Their's but to do and die."*

is not good enough in this Year of our Lord Nineteen Hundred and Forty-two.

WE MUST MANAGE

J. W. HORSEY

IT will serve no useful purpose for me to write a long dissertation on how to run a chain store business, nor will it be particularly helpful for me to tell you how "we did it". The history of the Company over the past few years tells an interesting story and speaks for itself. There are certain principles which have contributed to recent success and lessons learned which should prove of value to men in business, and I propose to deal with a few now.

At the outset may I stress the point that it is one thing to start a new business and make it a success but quite another to take a business which was once a great success, later fell on evil days, and make it successful once more. A study of such a history by operators of businesses presently successful might prevent a similar catastrophe in their own companies. The refusal to take time for such a study is a contributing factor to eventual failure. It should appear obvious to anyone that the first step in rebuilding a business is to analyze what brought about the failure. It is a most extraordinary thing that the obvious course is the one most generally passed up.

The crying need today, whether in business, government or our individual lives, is for efficient management. There is nothing new in that statement. How many times have you heard it said or have said yourself, "The success of any enterprise is in direct proportion to the soundness or quality of its management"? And yet I am impressed daily with the thought that we accept the statement as a platitude but refuse to face its implications.

Management is the ability to "handle", "conduct", "control", "take charge of", "make proper use of", "cope with" and "direct". Essential qualities in management are knowledge, intelligence, skill, common sense, courage, method, leadership and execution.

An honest recognition and application of the implications of management would prevent failure in any activity in life.

The war is upsetting everything. The stress of the times through which we are passing is uprooting much that we have complacently accepted and we are now convinced that our businesses and our lives will never be the same again. The upheaval, as well as the shock it brings, is due to our lack of management in business, government and individual lives. Events in the world should convince us that until we learn together to manage we cannot expect success; that our old ideas

may be outmoded; not that we must accept necessarily ideologies which are objectionable to us but we must learn to manage—to use what we have.

Success does not just happen. It is the result of

- (a) careful analysis;
- (b) sound planning;
- (c) effective direction; and
- (d) enthusiastic and intelligent execution.

Do you remember this from “Huckleberry Finn”?

“It’s lovely to live on a raft. We had the sky up there, all speckled with stars, and we used to lay on our backs and look up at them, and discuss about whether they was made or only just happened. Jim, he allowed they was made, but I allowed they happened; I judged it would have took too long to make so many. Jim said the moon could ‘a’ laid them; well, that looked kind of reasonable, so I didn’t say nothing against it, because I’ve seen a frog lay most as many, so of course it could be done. We used to watch the stars that fell, too, and see them streak down. Jim allowed they’d got spoiled and was hove out of the nest.” Mark Twain expresses the thought.

We are all prepared to “direct” and demand “execution”, but failure lies in the refusal to “analyze” and “plan”.

What really happens in the history of a business? A policy is developed which proves successful. In spite of everything we refuse to change it, believing that success comes only from developing an idea and then sticking to it. We are unwilling to submit the policy or idea to analytical study, and we stay with it until the very policy which made the business successful originally, eventually ruins it. Why? Because we are afraid of change. We refuse to look for the truth about ourselves and our business. We refuse to accept the truth when it is impressed upon us. We are tied to tradition and unfortunately would rather fight for our theories than for our business.

The first job to be done in rebuilding a business is to submit it to careful analysis, to set down fundamental factors contributing to past success and failure, and from that analysis to develop plans for correction. This calls chiefly for courage . . . courage to act when it hurts.

It is strange, but fundamental factors are not always thoroughly understood by those experienced in a business. It is most essential that

a clear understanding of simple factors be developed before much can be accomplished.

Understanding is basic. "What the mind understands, the tendency is to perform; what the mind does not understand, the tendency is to oppose."

The necessity for "change" in sound management and the realization that, as Mark Hanna put it, "people—not things make money" are two fundamental factors which must be recognized and made a definite part of company policy if success is to be achieved. We committed ourselves to such a policy three years ago and have endeavored to develop understanding in the minds of all members of our organization. Here is where the difficulty arises, however: an organization once successful can think only of what was done in the good old days. Theodore Roosevelt once said: "There comes a time in every great organization or institution, whether business, political or religious, when its young men dream no dreams and old men see no visions. When the whole effort is an attempt to perpetuate the past and the heads of these organizations sink into the past as an old man flops into his old worn-out armchair."

I have often said, "If I could put our business on wheels and move with the public where they move and in the manner in which they move, then I should feel that the business is safe." It takes courage to give up one's cherished ideas, but it is safer to submit them to the sunlight of truth.

Think of the millions which have been spent in this country by business and government in scientific research to establish control of products and to improve quality, and yet it is a rare occurrence to find an executive today who has established a research department to which ideas old and new may be submitted for testing and analytical study as a guide to him in making decisions and developing and executing policies.

Management cannot be described as the ability to develop an idea and then sit on it, enforcing it until death. Success in management in the future will be determined largely by the ability to change when all evidence points to the absolute necessity for a change. There is a delightful bit I should like to quote from "Through the Looking Glass": "Alice never could quite make out, in thinking it over afterwards, how it was they began; all she remembers is that they were running hand in hand, and the Queen went so fast that it was all she could do to keep up with her; and still the Queen kept crying 'Faster!' but Alice felt she could not go faster, though she had no breath to say so.

"The most curious part of the thing was that the trees and the other things round them never changed their places at all; however fast they went, they never seemed to pass anything. 'I wonder if all the things move along with us?' thought poor puzzled Alice. And the Queen seemed to guess her thoughts, for she cried 'Faster! Don't try to talk!'

"Not that Alice had any idea of doing that. She felt as if she would never be able to talk again, she was getting so out of breath; and still the Queen cried 'Faster! Faster!' and dragged her along. 'Are we nearly there?' Alice managed to pant out at last. 'Nearly there!' the Queen repeated. 'Why, we passed it ten minutes ago! Faster!' And they ran on for a time in silence, with the wind whistling in Alice's ears, and almost blowing her hair off her head, she fancied.

"'Now! Now!' cried the Queen. 'Faster! Faster!' And they went so fast that at last they seemed to skim through the air, hardly touching the ground with their feet, till suddenly, just as Alice was getting quite exhausted, they stopped, and she found herself sitting on the ground, breathless and giddy.

"The Queen propped her against a tree and said kindly, 'You may rest a little now.'

"Alice looked around her in great surprise. 'Why, I do believe we've been under this tree all the time! Everything's just as it was.'

"'Of course it is,' said the Queen; 'what would you have it?'

"'Well, in our country,' said Alice, still panting a little, 'you'd generally get to somewhere else—if you ran very fast for a long time, as we've been doing.'

"'A slow sort of country!' said the Queen. 'Now, here, you see, it takes all the running you can do to keep in the same place. If you want to get somewhere else, you must run at least twice as fast as that!'

While our present plans are the best assurance of future permanent success we can visualize, they involve change and we must accustom ourselves to change if we are to find our way back to success and lead the way to greater accomplishment. As Mr. W. J. Cameron of the Ford Motor Company said in one of his fine talks on the Ford Sunday Evening Hour: "No future generation is likely to go to sleep again believing itself safe from the rude alarm clock of progress. That happened to us once; now we are awake. We know that progressive change is the order of life. We know that progress need not take us by surprise; it is

possible to see in a fairly general and inclusive way what is coming. Every person in any sort of mechanical, professional or commercial work today knows that they will not be doing it in the same way a few years hence. All of us now are geared to the tempo of change. Progress is not wrong; it may be that our conception of the purpose and comfort of life is wrong. The standing order of the enterprising section of the human race is 'up'—always 'up'. People building the foundations of the coming society were not meant to sit as tabby cats by the fire."

Because of this it is essential that the organization be convinced that if they are called upon to change their minds and to co-operate in a new way, they can do so, confident and happy in the thought that they are contributing their bit to the establishment of something of which they can all be justly proud; knowing also that in the Management's determination to build an operation characterized by stability, it will not resort to expediency for temporary improvement. In our case it has required courage to sacrifice fifty per cent of the stores in operation. We will not keep in operation any store not capable of paying its way.

We do not advocate "change" for the sake of changing, but rather the acceptance of the principle in sound and effective management. I can say truthfully that if there is one thing I have learned during the past three and a half years spent in the chain store business it is the imperative need for change as a factor in progress and, on the other hand, the almost absolute refusal on the part of most operators to accept this principle.

Now, nothing can be accomplished without people, and "people—not things—make money". Isn't it astounding that as a country we are only just now appraising our man-power? How many businesses know what they have in man-power—developed and potential? How many executives are ready to pay the price in time and money to develop potential man-power? And yet it is the neck of the bottle—the measure of possible success.

The gearing of a great organization like ours to meet modern conditions is a stupendous task and necessarily one which takes time, money and patience. The task is one in which no individual can be successful without the whole-hearted co-operation of everyone from the youngest member of the staff upwards. In fact, the ability to co-operate becomes more important each day. That ability will determine the amount of success attained in a satisfactory operation during the present trying days, as it will also determine the measure of permanent success realized in life and in business. To co-operate, one must have the desire

to co-operate and understand the manner in which one's individual co-operation can become most effective, so that all involved may together contribute to the progressive realization of our purpose.

The right attitude of the Management towards the staff is just as important as that of the staff towards the Management. As an example, recent studies over a five-year period in a large industrial concern show that employees like to work where they are considered an important part of the operation. In fact, these studies prove that consideration outweighs any other employee benefit in hours, labor, wages, etc. The latter are important but are not valuable if the first consideration does not exist. *It is the democratic way of life.* It means giving each employee new satisfaction and a new spirit, making him or her feel deeply that they count.

Co-operation, however, from all employees in making the idea work is the only possible assurance of success. The personnel must be part of the plan to rebuild and therefore it is often necessary, and in our case was vital, to rebuild the Executive Management. Men may be unable to contribute to rebuilding, not through lack of ability but because of long association with obsolete ideas and with inefficient people whom they loyally feel they should protect. I have nothing but admiration for their loyalty, but it is of first importance that we all be of one mind in any reconstruction program.

It is my belief that the men now occupying the key positions in our Company are well qualified, with proper co-operation, to lead along the road to success. They are men of great experience in their respective positions and their posts will be further strengthened when such action seems desirable. It is my declared policy, and I believe desirable, to fill major positions in the future from among our own staff.

The regulation, control and mobilization of the resources of a company, and at the same time the promotion of individual initiative, are the necessary preoccupations of an executive.

Far flung over two thousand miles of territory, operating nearly three hundred small businesses each with its manager and its staff, all of which must be co-ordinated, that is Dominion Stores Limited. Each one of these units must reflect the purpose of the Company as a whole; that is, the general policy of jealously protecting the interests of consumers, employees, suppliers, and shareholders. Each unit and each member of each unit must pull full weight on the oar of progress.

In our business we must at all times keep definitely in mind that

we are distributors, not producers, of food. We distribute to the consumer products manufactured by others. Therefore we are a service organization and our success depends on the efficiency of our service. IT is the commodity we have to sell. It must be obvious, then, that skill or expertness in service is a factor without which we cannot hope for success, and that service involves understanding of the desires of the customer in merchandise and in merchandising. No organization can expect to exist permanently unless it, too, can adapt itself to change and constantly improve the effectiveness of its service.

To achieve a constructive program one must look forward fearlessly. The past can serve only as a means of analysis and from that analysis one must plan for the future. It has no other value. We must "let the dead past bury its dead", put our hands to the plough and look ahead. While courage is essential in any such program, enthusiasm is the priceless ingredient which assures success.

THE DEVELOPMENT OF SUPERVISORY AND EXECUTIVE TALENT TO MEET THE EMERGENCY

H. L'ECUYER

PART II.

THE development of new management officers, both on the supervisory and the executive level, calls for the selection of a number of likely candidates and provision for training them to meet the emergency needs of the employing company. It will not serve the purpose to select more candidates than can be trained for management responsibility; on the other hand, the sort of training provided will depend on the qualities possessed by the persons selected for management responsibility. The opinion was expressed *that all-around management personnel, equally developed in technical as in management and personal qualities, will not be available to meet the emergency.

Specialization of management will be required in this emergency, as specialization of labor has been used to reduce the number of well-developed skills expected in any one person. Experts should be developed to handle narrow technical specialties. Among the experts will be personnel specialists to help the operating management in the employment, training, and many of the other personnel aspects of operations. With specialization of management the operating management can expand more readily, because the problem of employment and training of management talent will be reduced to these terms: New management officers shall have the capacity to act as co-ordinators of the various specialized services available in a company; they shall be interpreters of the business functions of the company; and their ability to understand the requirements of the company shall enable them to expedite the productive work under their control.

The discussion of management development in this article will suggest sources of management talent which may not have been used by some employers hitherto. It will suggest means, methods, and tools of training which may be used when past training programs seem inadequate or not sufficiently adaptable. Each company organization gets into the habit of using certain employment procedures and certain training procedures. Because the development of management talent is a problem so much more acute than it has been, many of these old

*See article same title last issue. That article dealt with principles underlying management development.

procedures are found to restrict the policies of the company as to the type of management talent to be used. Therefore, mention of ideas which have proved helpful elsewhere will provide refreshing suggestions which may be adapted to other company organizations. Candidates with the executive viewpoint who have not been reached before, or who would not have been properly developed by a company's usual training procedure, may become available by the use of some of the techniques mentioned here.

Of necessity, in order to produce a rather complete inventory of sources of talent and training technique, each item will be scarcely more than mentioned. The stories of successful application of each technique mentioned here are generally available in management literature to those who would explore further the possibilities of a particular suggestion.

EMPLOYMENT: Qualifications for Management Personnel

Nothing is more important before setting out to secure executives and supervisors than to know what qualifications are desired in each management person; yet apparently few things are more difficult to describe. It is as important for the management to discern what they desire in new management officers as for means to be found to get candidates for those positions to express their actual and potential characteristics. In both cases the approach has been more negative than positive: management can express what it does not want; and candidates suppress what should not be known. In general, the list of personal qualities desired in managers divides into three categories such as were compiled by supervisors of the Westinghouse Electric and Manufacturing Company.

Personal Qualities

Fairness, tact, honesty, optimism, good health, self-control, enthusiasm, sympathy, dignity, firmness, patience, dependability, open-mindedness, punctuality, frankness, poise, unselfishness, sense of humor, courtesy, broad-mindedness, loyalty.

Managerial Qualities

Initiative, judgment, system, courage, resourcefulness, foresight, power of analysis, self-confidence, alertness, decision, progressiveness, perseverance, imagination, concentration, sense of proportion and values.

Special or Technical Knowledge

Material, equipment, economics of production, time study and rate setting, cost and accounting, inspection methods, first aid.

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Such an excellent list of qualities as that cited does not settle the confusion about what is desired in management officials to be hired. Good and bad are distinguishable but the best is desired, so that in the end the longer the list of good attributes the more impossible of fulfillment it becomes. The same impracticability is true of any list of bad qualities to be avoided in new management, such as: overbearing, stupid, ungrateful, distrustful, mean, dishonest, irritable, moody, lover of power, etc.

Oftentimes the qualities desired in management officials never are defined; several of the major executives personally appraise any likely candidate passed favorably by one of them against that indefinable standard which they hold in the back of their minds. This inability to convey what is desired has doubtless estopped the wider use of employment specialists in the hiring of management officers. Yet, if promotion from within the organization is to be followed, this situation is unsatisfactory, for only the laws of chance assure that a sufficient number of properly qualified persons will be available for promotion to management positions later.

Methods have been developed for rating grades of managerial responsibility, most of them in connection with salary and position standardization plans. In print these specifications tend to be lifeless, but in the hands of a capable personnel man working with major officers they can be modified and supplemented so that they give something of a picture of the position and so of the person desired. There are also plans for the periodic rating of employees by members of the supervisory and executive staff in the organization who have the opportunity to observe their work as potential managerial personnel. These ratings have in some instances developed into a sound basis for systematic promotions. Analysis of these ratings may sometimes indicate the types of qualities which have usually been acceptable for positions of a given grade.

With some success some companies have asked the officers who will directly supervise the supervisor or executive to be hired to write a description of what is desired; sometimes this is done with the expert assistance of a personnel man. It is not sufficient to say that the candidate must show a recognition of the management and the worker viewpoint. More specific qualifications must be reached.

In general the management candidate should exhibit capacity in

these four faculties which characterize the work of management: (1) Ability to formulate, understand, and communicate policies, practices, and decisions in the thought in which they are framed, together with the ability to appraise sufficiently, correctly, and clearly the work situation which superior executives should know in order that they may make sound executive decisions. (2) Judgment, discrimination, and broad understanding in the field of human relationships. (3) Personal adjustment to subordination and authority, to changing conditions, and to personal ambitions and prejudices. (4) Technical knowledge.

In the past no better or more widely used method of evaluating these qualities has been found than to locate a candidate with a record of successful experience along these lines. Therefore, an inventory of methods of recruitment may bring to light ways of reaching candidates worthy of consideration for management positions.

EMPLOYMENT: Sources of Supply and Methods of Recruitment

1. Promotion. There are times when the total training problem will be increased by promotion, because the promotion of one person may call for shifting and retraining a number of persons. However, most companies believe that morale, particularly among better employees, is stimulated by promotion within the company. Less training is required in the operating details and less indoctrination of the company viewpoint. There will be fewer interruptions in the normal routines. Promotion may be either by automatic, logical steps or by special consideration in each case. Promotions are best for the organization when candidates will not be subject to demotion later. For this reason many companies will go outside their organizations for temporary management talent even though they would ordinarily promote.

2. Relatives, friends, and acquaintances recommended by executives and supervisors, and sometimes by employees. This source is used in varying degrees, and offers possibilities which should not be overlooked. On the theory that "birds of a feather flock together", many companies feel that they are relatively well assured of the calibre of the individuals recommended, but oftentimes referrals are actually far short of company standards. If present supervisors or executives are satisfied with their employment, they may be anxious to favor their friends, who in turn may be already favorably impressed by what they have learned of the organization. These candidates are likely to wish to have permanent positions. Sometimes, however, top management wishes to avoid at all costs personal alliances which will not work to the good of the organization.

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3. Persons recommended by bankers, auditors, suppliers, customers, attorneys, consultants, etc. These persons will usually have a fair idea of the sort of person the company desires.

4. Persons trained for management positions or actually in management positions with competitors, suppliers, customers, and allied industries, who are dissatisfied with or willing to change from their present connections. These persons will usually have some familiarity with the technical problems of the company because of similarities in processes or familiarity with the company through the supplier or customer relationship. An Order-in-Council prohibits labor "pirating" among war industries, and there is no doubt that difficulties would arise out of piracy among managerial talent. However, there are often instances of a person of management capacity being dissatisfied or for other reasons desirous of making a change. A third party approach will often be advisable in these instances.

5. Persons now employed in a managerial capacity in non-essential industries unfavorably affected by the war effort. Particular scrutiny should be given to production-minded salespeople who will become available.

6. Persons who are known to have retired or are temporarily away from work in which they have had experience which would be of value.

7. Professional and trade associations maintain employment services, or at least they often have information about good prospects.

8. The alumni and placement services of schools and colleges, both public and private, particularly those specializing in business training. These schools have contact with their successful alumni, as well as their students now interested in placement. Care must be taken, of course, to avoid those private, commercial schools who do not maintain standards desired by employers; in fact, many of them have become active recently with "certificates" of training available for a price. The established school, like the established business, keenly appreciates its responsibility to the companies who employ its students.

9. Some professional and trade publications maintain listing services and oftentimes carry employment advertisements to a selected group.

10. Conventions, conferences and meetings offer the opportunity

to learn about persons who are developing into management calibre. Those writing for trade and professional publications are likewise worth watching.

11. Advertising, public announcement of a vacancy, and other types of publicity may bring to attention persons who could not otherwise be reached. When properly done, this method has sometimes produced surprisingly good results. Areas may be reached which could not otherwise be tapped economically. The tone of an ad must be carefully designed to attract the sort of person desired.

12. Employment services, public and private. This is potentially one of the best sources. The co-operation of industry with the public employment offices is necessary unless the government is to further regulate employment, as for instance to prohibit any recruitment except through public employment offices.

13. Records of former employees.

14. Files of previous applicants.

15. Centers not adjacent to the company's place of business, in which business may be depressed in spite of the war production, will contain good talent.

16. Specialized groups, such as those working for the employment of men over forty, unemployed executives, "Man Management Clinic", Y. M. C. A. and Y. W. C. A. (for women supervisors), business and professional women's organizations.

17. Letters of application. In ordinary times local people are expected to appear in person for employment and distant persons are not encouraged to apply. Even in days when talent is scarce, some worthwhile applicants will still turn up by correspondence.

18. Labor union offices and officers. In some instances companies have ample confidence in labor union officers to accept their recommendations and gladly hire union officers themselves if they are available.

19. Casual applicants. The line of applicants is diminishing, but publicity and advertising give a temporary pick-up. A few technical men and supervisors will still be found in the line. They are independent and will not wait; so they must be combed out quickly.

20. Many persons of management calibre are to be found in government departments which are about to be reduced, and others in

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government departments whose field is allied to some field in the company but who wish to make a change to private business. This applies also to persons of management calibre in schools, religious, and charitable institutions. Business has retained an unwarranted prejudice to using this sort of executive. The ideals of such executives make many of them capable and inspired leaders in production work.

21. Certain outstanding publications carry information about available persons but will not accept employment advertising or announcements of vacancies.

The *Means* of reaching these many sources are as follows:

1. Personal interviews
2. Scouts
3. Third parties
4. Advertising
5. Correspondence.

EMPLOYMENT: Selection

An exhaustive list of sources for recruitment has been given, but no company can use all comers while there are still enough applicants to select from them those who have better developed capacities which the company desires. The scarcity of these capacities, in fact, places a premium on finding management candidates who have them. The importance of the predetermination of the qualifications desired comes to the fore in selection. Ambitious employees and some outsiders are such good salesmen of themselves that they oversell themselves. Personal qualities, or their lack, and friendship often obscure the real abilities of the applicants.

With respect to promotion from among employees, selection is much easier if the management has already sponsored activities among the employees which tend to disclose the qualities desired, if the employees have been studied in different environments, if several members of the management are prepared to appraise their qualifications, and if employees have been rated systematically and carefully in their performance over a period of time. The company that has maintained training activities is fortunate in that some employees will have disclosed their aptitudes for tackling new problems.

Examinations and tests are widely used in selecting management candidates. They may be written or oral, discussion or objective, and

related to the work content or general or psychological tests. While tests are more widely used in initial selection than in promotion, there are not a few instances in which companies use tests with employees already in their employ, even in deciding on promotion to high management ranks. Some companies have undertaken to have tests fashioned to their own particular requirements. While tests should not decide the final selection, they are useful in a negative way for warning against certain qualities lacking in candidates. It may be mentioned that tests have been specially designed to determine aptitude, attitude, temperament, intelligence, and skills, among other qualities.

A company should neither exclude college graduates from consideration for foremen's positions in the plant nor exclude rank-and-file men from executive positions in the office. If rank-and-file men are deliberately included in executive training courses, given experience in flying squadrons, and the like, they will observe that their efforts at advancement may be rewarded. On the other hand, the college man, in spite of an analytically trained mind, has a lack of acquaintanceship with the amount of detail in managerial positions, chafes at the slowness of change, and underestimates the importance of many minor adjustments which he may believe are beneath his capacity for larger questions. What he lacks in some of these things and in sensing human relationships he tends to overcome in vacation and part-time employment, so that many companies consciously provide opportunities for this interim work experience, and for other experience "rubbing shoulders" with the humblest employees in the plant.

Some executives will be surprised to learn that many of the employment offices, public and private, will co-operate with them extensively in weeding out the unlikely candidates for managerial positions. These offices will also often take applications on the company's own form, administer various tests, prepare interviewer's comments, and arrange appointments for interviews. In the final analysis the company gets just about the service from the public employment offices which they encourage the employment offices to give. Co-operation between employment offices and industry has been fostered by mutual invitations to visit and observe the procedures of the other.

Further selection procedures include varieties of preliminary and special interviews, forms and questionnaires, medical examinations, fingerprinting, proof of citizenship, consultation or correspondence with references, and investigation service on the individual's background.

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All of these methods should be patterned to the company's own requirements.

At the final selection the least likely candidates have been eliminated by one or another of the steps in the selection process and the various results are reviewed by the major executives of the company. There is no short cut, in this emergency, to careful selection of personnel. After all selection procedures have been followed, the real selection occurs in the weeding out process which follows employment and carries through training.

TRAINING: Scope

Training of supervisory and executive talent should include not only those persons newly hired or promoted, but also all persons of management rank in the organization. The company should familiarize the newcomer with the traditions and policies of the company and the operating methods of its important departments. It will wish to familiarize him with the personnel with whom he will work. When a considerable number of new executives or supervisors are coming into the business, it is equally important that the other management personnel continue its own development along with the new. Process changes and new products as well call for the present management's acquainting itself with the newly developed operating problems of the company.

However, there are other objectives of training for the entire managerial personnel. The changes which have taken place within the organization and are yet to come call for progressive thinking on the part of all who are to deal with them. Training has two general approaches: (1) to impart knowledge and familiarity with facts and conditions, and (2) to develop habits of thinking which are useful to the organization's purposes. It is of little use that the company attack its problems progressively unless all of the management personnel is thinking co-operatively along similar lines. Therefore, all of the management personnel must not only be equipped with the knowledge of what is going on, but their thinking must liven to the pace of the work. Training activities serve to unify the objectives of the company throughout the organization.

TRAINING: Emphasis

The work of the supervisor and the executive deals with technical information about the process, with people (including their subordi-

nates, superiors, and the staff experts), and with the organization as such. What should be emphasized in training in this emergency cannot be stated to apply to all companies. For the purpose of enabling the company to get out its production, the management official must know how to get out his work with the help of the whole organization, particularly how to use the company's own specialists to the best advantage. The new manager's working acquaintanceship with technical information develops through his learning about the expert services of the company, for part of the work of the departmental specialists is to broaden the technical understanding of executives and supervisors.

However, training of managers in the use of the organization and in technical knowledge would be wasted unless these managers turned out to be more than ordinarily successful in personal relationships. In working constantly with people the new manager will be aided by practical psychological insight into human behavior. The top management which allows hit-and-miss or trial-and-error methods of training new management for satisfactory personal relationships is as negligent as if a new supervisor or executive were given no help from the company as to most efficient processes in manufacture.

Training, therefore, should emphasize these points: understanding of and willingness to use the company's own specialized services to improve output; technical competence; harmonious methods of dealing with others which draw out their best abilities; and personal understanding and satisfaction of the manager with what is expected of him.

TRAINING: Means or Agencies for Training

The agencies *outside of the company* which can be used as a means of training executive and supervisory talent are the following:

1. Home study courses. Some universities and some commercial correspondence schools offer splendid correspondence courses in foremanship and executive work.
2. University extension courses.
3. Y.M.C.A. foremen's courses.
4. Several companies may co-operate to get a good teacher, who may remain in their employ part or full time.
5. Outside college or technical school teachers may be secured for specially organized courses.
6. Trade association courses.
7. Part-time enrollment in university courses.

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8. Part-time enrollment in technical school courses.

9. Speakers from government offices, including employment officers and vocational directors (who should likewise become conversant with companies' problems in order to give them the best service).

10. Commercial training organizations.

11. Training within industry has been definitely developed as a government aid to business in the United States, and the work of that Division can offer guidance.

Within the company the following means (or some combination of them) may be used for organizing, developing, and executing training activities on the management level:

1. A training director. The training director may be on a part-time or consulting basis, yet responsible for the training program of a company.

2. Different staff heads working under the general direction of principal executives may carry the responsibility for the training program.

3. A committee of executives or supervisors who are interested in the problem may themselves organize training, or they may combine with similar officials in other companies to organize training courses.

The selection of the leadership is of utmost importance. Management officials will in turn become responsible for the training of their own subordinates. The methods they see used should be illustrative of methods they, too, can use.

TRAINING: Content and Method

Methods of presenting study material for training purposes may be classified as follows:

1. Encouragement of independent personal study. Guidance in reading.

2. Enrollment in home study, evening extension, or university courses (sometimes with fees repaid if the course is successfully completed).

3. Scheduled personal conferences with executives during which pre-arranged topics are discussed periodically.

4. Group conferences. This method is perhaps the most common and is quite effective. It will be discussed below.

5. Committees of executives or supervisors for the co-ordination of management efforts and for the study of operating policies and methods. Without special care with this method time will not be used economically. Furthermore, the participants must contribute generously from their experience, evaluate proposals critically, and reach clear-cut and acceptable decisions on policies and methods if this plan is to be effective. This method fails to give experience in following through the action which occurs after the decision.

6. The formation and execution of policies at every level of the organization can be so handled as to secure the deliberations of managerial personnel and assure that they use sound thinking.

7. Orientation course. This method brings within the scope of a single training course a wide range of information about which the management candidate should become familiar. He may miss entirely, however, gaining any work experience in such a training plan.

8. Directed work program. The management candidate is routed for definite periods through various departments where he becomes familiar through actual experience with the work of those departments. The method is slow and relies for its effectiveness on the ability of line supervisors to provide learners with opportunities to gain experience and insight.

9. Special problems study—individual. The candidate is assigned to the special investigation of a large problem which will require his gaining familiarity with various phases of the business. This method is unbalanced in its emphasis on a single situation.

10. Satelliting, that is acting assistant to a principal executive, perhaps just observing while he does his work. With this method the managerial candidate lives in a rarefied atmosphere rather far removed from the type of responsibilities which he is likely to have to assume in his first actual responsibility.

11. Understudy. This is perhaps the best method of all if the understudy is given actual opportunities to take responsibility through the planned absences of his superior. However, it is expensive. Efforts will not be doubled by the use of two persons for a job if the understudy method is properly used. The superior will still have to take time to assure himself that the assistant knows what is to be done, and he will take time to see that what was expected is done. They will have to confer for mutual information and common activity. The understudy will fail to act on situations and the superior's time will be used in going over the situation again. The assistant will use time just to make

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an impression on his superior. Furthermore, if there is more than one understudy, this will cause additional time to be lost through inability to schedule the superior's time between them.

12. Limited, specialized responsibilities. This is a method which has not been used to its full possibilities. For instance, if the foreman systematizes his own work, he can assign full responsibility for some managerial activity to an assistant, whose other regular duties are adjusted accordingly.

13. Trouble-shooting. The person in training is delegated to act as a buffer on all details which require checking before they are brought to the attention of his superior.

14. Flying squadron. The person in training gains actual work experience in a variety of operations by assignment to a special group of operatives which is organized and maintained to work wherever stresses occur. This training is weak on training in the routine work of management.

Tools of Training

There are various tools with which training can be carried on in conjunction with most of the methods of training listed.

1. Written reports are an invaluable aid in clarifying the trainees' ideas along special lines studied for the purpose of writing the reports.

2. Interviews with officers, specialists, workmen, etc. (sometimes in conjunction with a questionnaire on a special topic).

3. Tours of other plants. To be useful they must be well planned as to what facts to look for, and reports or discussions should follow.

4. Conferences.

5. Study sessions among trainees.

6. Lectures.

7. Teaching by cases.

8. Research outlines for expansion by trainees.

9. Departmental observation assignments.

10. Planned route charts of job progression.

11. Routed work schedules.

12. Individual training analysis and testing.

13. Executive and supervisor's luncheon room. Better personal

contact, understanding, and exchange of views is fostered in a semi-social atmosphere.

14. Membership in associations related to major interests to be developed.

15. Trips to meetings and activities sponsored by technical and trade associations.

16. Taking extra carbon copies of letters written by executives-in-training for analysis as to improvement possibilities.

17. Demonstrations by technical experts—chemists, accountants, purchasing agents, etc.

18. Visits within the plant.

19. Moving pictures.

20. Advertising, sales, and historical literature of the company or industry.

21. Models, samples, and other graphic methods of demonstration.

22. Social activities, such as monthly evening meetings, theatre parties, bowling clubs, and entertainment in the homes of other management officials. These techniques develop loyalty and afford the opportunity to straighten out personal problems.

Content of Training

The methods of understudy and group conference are perhaps most used for the training of management. Discussion of the content of training programs will be limited to a brief consideration of the conference method. It is not easy to produce course material which will develop what is desired in the management official's point of view and his working methods. He must be taught to use the organization and its specialized services and to use skill in personal relationships, as well as specific technical information. The training content should be kept close to the management official's work. Case studies of management problems are useful in conferences. They may be assembled by the participants themselves, or by the committee in charge, or by the training director. In the case of each management problem chosen there should be discussion of what was done, wherein it was right or wrong, what the results were, and how the situation might have been better handled. Actual difficulties and problems arising with members of the group can be presented for the group's consideration. In all cases special effort should be made without personal embarrassment to participants to bring to light the limitations of capacity, deficiencies, errors of judgment, and prejudices of those participating. Through these means the

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capacities of managers-in-training can be judged and they can be helped with their development before deficiencies produce costly mistakes.

Conferences should be well organized on related topics. They should be frequent enough to keep the training objectives before the participants, and yet should not become wearisome. They should be on company time, or if outside of regular hours, the participants' time should be specially compensated. Outside reading amounting to about thirty pages weekly should be required to supplement and stimulate discussion. Groups should not be overly large; twenty to thirty members is the absolute maximum for all to participate actively. Lecturing and imparting knowledge should be minimized in favor of discussion and acquiring understanding. When accountants and other staff experts are used they should be taken one at a time and should listen to problems rather than to come in with previously prepared directions as to what foremen and executives should do. When training activities are carried on continuously, any particular period of the training should be limited as to length, so that there will be definite pauses and progress points in the course.

The number of persons to receive similar training, the size of the company, and the nature of the training which is to be provided will determine the training plan to be used. A large war industry not long ago undertook to train about 900 management officials. It did so by the understudy system. When a new plant had been built from the ground up the new managers were trained and ready to move in and take over. This experience shows that no job of training is too large if top management is willing to organize the training job and carry it through with full planning as with any other activity of commensurate importance.

Conclusion

These discussions have described the setting in which the development of executive and supervisory personnel will take place, have indicated the probable lines which this development will take, and have sketched in outline form procedures and techniques in employment and training.

In ordinary times many companies get by without planned training programs. But the development of the management organization must precede the expansion of operations if full efficiency is to be realized in enlarged organizations. New sources of management talent will be tapped by companies who wish to avail themselves of the best ability

that can be made available in the shortest time. Managers will be taken for training in this emergency program who might not fit into company policies for long-range development of management personnel.

These emergency managers should be developed as co-ordinators and expeditors of production, able to use specialized services which companies should also develop within their own organizations. Workmen are trained for relatively simple skills. An adequate supply of management talent requires no less attention. In the grade of employment and training of supervisors and executives for emergency work will lie much of the reason for success or failure of production. It is hoped that the outline of employment and training possibilities offered in this article will suggest ways to those faced with the problem.

POST-WAR RECONSTRUCTION: LINES OF APPROACH

PAUL MARTIN, M.P.

THE first item on the agenda of civilized men and women today is the mobilization of every effort to achieve victory. Consistent with this primary objective is the attention being given to peace aims and in consequence to the kind of human society in which the majority will want to live after the war. Versailles was preceded by much private study of post-war problems. The limited scope of these studies, and the incomplete co-ordination between them and the official program, contributed to the inadequacies of the treaties of peace and their aftermath. It is therefore highly important that post-war projects should be thoroughly scrutinized and carefully co-ordinated with governmental policy. Mr. Harold Nicolson, a member of the British delegation at the Paris Peace Conference who has contributed a "Penguin Special", entitled "Why Britain Is At War", points out that the great error made by the framers of the peace was, "No very clear program had been laid down in advance", and "before the negotiators enter any future Peace Conference they must be clear in advance what kind of new world it is that they wish to create".

Already unmistakable demands are in evidence. Nothing short of a reconstruction of the world on a political and economic basis so as to further the welfare of the common man and to preclude circumstances provocative of cataclysmic wars will suffice as aims. It will not be enough to proclaim the four freedoms. Generalities must be translated into practical measures.

It is easier for unofficial groups to outline in detail the proposals for post-war rehabilitation than for political administrations engaged in the direction of the war. Thus, when in August of 1941, Mr. Churchill refused to give a precise statement of peace aims, he was probably influenced by a determination to avoid division among the United Nations. This reluctance should not be regarded as a refusal to acknowledge the importance of advanced planning. The British Prime Minister may be assumed to have agreed with General Smuts who, a year before, speaking in a broadcast from Capetown said, *inter alia*, "Intercourse between the nations will be free, and commerce, economics and finance will be freed from all hampering restrictions and obstructions. As between man and man there shall be social justice; as between nation and nation, there shall be a rule of law, the absence of force and violence, and the maintenance of peace." The British Prime Minister has readily

concurred in President Roosevelt's message to Congress of January 6, 1941, where an outline of the four freedoms was given. Indeed Mr. Eden, on behalf of the Government of the United Kingdom, acknowledged on May 29, 1941, that "We have found in President Roosevelt's message to Congress in January, 1941, a key note of our own purposes". The Foreign Secretary outlined methods by which economic freedom could be realized, and made the significant statement, in expressing agreement with a declaration made by Mr. Cordell Hull, that "Institutions and arrangements of international finance must be so set up that they lend aid to essential enterprises and continuous development of all countries and permit payment through the process of trade consonant with the welfare of all countries". There is further the Atlantic Declaration of August 14, 1941, with its emphasis on the maintenance of freedom, the acknowledgment of the nexus between political and economic matters, and its disavowal of imperialistic intentions. The Government of Canada shares the opinion embraced in these official pronouncements. The Prime Minister of Canada, speaking in Edmonton on July 4, 1941, said, "In the prosecution of the war, we are learning to mobilize and martial our resources to meet an external threat. In the world which emerges from the conflict we must be prepared to mobilize and martial the human and material resources of Canada for the promotion of human betterment. The preparations cannot be left until the struggle has ended". Again, speaking at the Lord Mayor's luncheon in his honor, Mr. King observed that, "A new world order cannot be worked out at some given moment and reduced to writing at a conference table. It is not a matter of parchments and of seals. That was one of the mistaken beliefs at the end of the last war". There are, too, the significant words of the Canadian Minister of Pensions and National Health, contained in a speech of October, 1941, "We shall have to develop a kind of Government and a kind of economic system that rules out unemployment. No other can survive. Security for the masses . . . must be the first essential of our post-war world".

Labels will be of little help in the days to come. The world of tomorrow may be neither fully capitalistic nor fully socialistic: more likely it will be a combination of both. *Laissez faire* capitalism will practically have disappeared. Certainly the policy of controls set up during the depression and elaborated on during the war will not be abandoned except gradually, if at all; the fiction of national sovereignty will be violated; some nations now dominant will be relegated to the ranks of second-rate powers, and the leadership in the inevitable balance of power grouping will be transformed or shared with new national

personalities; the growing fact of political and economic inter-dependence will subordinate, if not obliterate, old style neutrality. Communism will not be hailed as the alternative to war and imperialism; the very nature of totalitarianism will deny it the opportunity of being accorded an immortality in Europe. Neither politics or economics alone will afford the desired shaping of the post-war period. The essential requirements of human nature will make themselves manifest, and these basic needs embrace the mind and the spirit of man as well as his body. The materialistic interest of life must be placed in their true perspective; they alone cannot resist the crushing blow of totalitarianism on the human personality. There must be a re-acknowledgment of the highest concepts of religious faith and democracy, and these concepts must be at the base of the political and economic program.

The mistake at Paris was to follow the dictates of haste, impatience and seeming political inevitabilities. This time, a considerable interval should elapse between the cessation of hostilities and the actual making of the peace. Starved and conquered peoples will immediately provoke the task of being fed, clothed and housed. This job of necessary human rehabilitation should precede the actual making of the treaties of peace. Mere formulas, no matter how exact legally, will not avail if this period of bankruptcy is not provided for. And as Vera Micheles Dean has written, blue prints must be conditioned by the necessary goodwill to make them operate. This is axiomatic, when it is recalled that the readjustments will involve the transfer from a war economy of scarcity to a peace-time economy of over-supply and over-capacity.

The problems of the post-war world should be confronted with plans to cover a short term and a long term. In the period of transition, that is to say, from the moment the "cease-fire" signal is given until the peace is framed, the economic and financial collaboration maintained during the period of combat will have to be maintained by some sort of Reconstruction Commission to provide for food, relief, and health measures. Maintenance of order in the period of receivership will require international military collaboration. A short-term program to meet the exigencies of the transition period will have to face the problem of arresting Nazi military strength by demobilization of the German army and the disbanding of Hitler's secret police. It will be recalled that the hurried creation of the Weimar Republic created difficulties, which assisted in provoking a resentment and encouraged the rise of Hitler. A similar development at the end of this war will have to be supervised. Thus it will be necessary to provide Germany in a gradual manner with the opportunity of self-government on a democratic basis. To avoid the

disorder which would result from a sudden disturbance of national and international economies, strict supervision by the wartime control method over raw materials, foreign trade, foreign exchange, shipping, etc., will have to be maintained, somewhat along the lines now in existence between the United Kingdom and the United States and between the United States and Canada. If, for instance, Canada and the United States have been able to co-operate during the war in the matter of controls of shipping, exports and imports, raw material supply and use of balance of payments, it should not be impossible to maintain this type of collaboration during the transitional period.

It may be taken for granted that Europe and Asia will suffer from severe shortages of raw materials and foodstuffs, while simultaneously great exportable surpluses of these products will accumulate in the producing areas, particularly in the Americas. To set in motion industrial production in these scarcity areas and to provide the means to resist starvation will require financing, effective methods of distribution and facilities for shipping. The problem of financing these imports without assistance, particularly by the United States, will be difficult because European and British reserves of foreign exchange and gold will have been seriously depleted. All this will require immediate attention. No *laissez faire* policy will meet the problem which will be presented by the task of reconstruction of property in the damaged areas. The transfer of man-power from the armed forces to peace-time occupation will provoke another challenging task. Demobilization will have to be well timed and the transfer carefully directed; provision will have to be made for the re-training of labor. In addition, the problem of returning millions of people to their homes will require efficient organization. Mere recital of these problems indicates their stupendous character; they can be dealt with only by international co-operation. These immediate post-war problems will necessitate supervision over investments, prices, foreign payments and the distribution of materials of scarcity.

The Government of Canada seems to be alive to these factors and the task involved. A Cabinet Committee on Demobilization and Re-establishment has been set up under the chairmanship of the Honorable Ian McKenzie, Minister of Pensions and National Health, and its work has been subdivided into two groups. The first, through an advisory committee, has been assigned the welfare of ex-service men. The personnel of the committee consists of senior departmental officials said to possess special knowledge of this problem. Under this general advisory committee have been set up sub-committees, each dealing with a special phase of the returned soldier problem and including such considerations as:

(a) Post-discharge pay. (b) The care of such special casualties as the blinded, and the amputation cases. (c) Employment. (d) Government preference. (e) Land settlement. (f) Returned soldier insurance. (g) The utilization of special funds, etc. The second advisory committee has been designated as a Reconstruction Committee and is charged with the responsibility of advising the Government as to the type of organization which will be required during the period of transition from war to peace. Its personnel is made up of two university presidents (one an economist, the other a scientist), a representative of industry, labor and agriculture. It would seem desirable that these agencies should be supplemented by a committee of Parliament.

The settlement at Paris failed to keep the peace because in the first place the victors did not maintain a responsible attitude throughout. Likewise the not unnatural but unwise disposition for revenge openly contributed to this failure. The lack of co-ordination between the national and international political structure to new economic and social conditions; the dissipation of old values into standards that did not command general acceptance—these are pitfalls which must not be allowed to reoccur.

We are in a period of transition. Some may call it a revolution. There must come a process of change from a competitive and "acquisitive society" to what Mr. Tawney calls a "contributive society", in which the emphasis will be not on what men and nations can obtain for themselves but rather on the maximum of what they can contribute to the larger community. This is a necessary prerequisite in building a better world, and its success is predicated on the recognition, in the Aristotelian manner, of inherent limitations, among which is the hurdle of geography.

Dr. Moritz J. Bonn cautions that the task of planning for peace is greater than that of planning for war. The technical difficulties in the latter case are real but the planning economically is relatively easy, because under wartime conditions debate and differences of opinion are restricted. Planning for peace offers a relatively easy technical approach but presents immeasurably difficult economic problems. That this is the case must be apparent from a perusal of the many projected plans for post-war reconstruction. The stage will be the world with Europe at the core. But unlike the events following the Congress of Vienna there will be involved not only the creation of a balance of power between nations but probably as well between regional groupings and continents. The failure of the Industrial Revolution to penetrate contemporaneously all

the European nations suggests that European stability and harmony pre-supposes that all the nations of Europe will share communally in the developments which have gone to make Western Civilization.

The democracies are not alone in their concern for post-war reconstruction. The Nazis talked of a sort of European United States even before 1940, with Germany, of course, as the "master race". Following the modification of this plan by the German Minister of Commerce, Dr. Funk, Germany gave the world a blue print, embracing all the nations, the dominant feature of which was to be the "master race" principle operating on a continental basis. The "Greater East Asia" program of Japan fits into the German and Italian conception of the new world order. There will be a ready dismissal of these Axis plans because of the false assumption on which they are based. But it is to be remembered that our own projections have many features similar to those of the Axis programs, revealing like approaches to such points as the reduction of small national entities attempting political and economic self-sufficiency, an expression of Twentieth Century Chauvinism. The suggestions of American and British groups of planners differ from the Nazis' proposals in that the former call for groupings on the basis of equality and voluntary co-operation rather than on the principle of domination by the fiction of a "master race". The Nazis postulate their schemes on an exclusion of interregional and intercontinental collaboration. Common agreement is found in the desirability of substituting an era of absolute competitive searchings for markets and raw materials, and eliminating the inevitable currency restriction and high tariff barrier policy. The suggestions afforded on our behalf and on that of the enemy are at one in recognizing the need for more effective planning and pooling of the world's resources, and the identification of extended political units with larger economic formations. The fundamental difference arises in the methods employed to bring about the new heaven and the new earth. The one would do it by totalitarian methods, embodying a brutal scheme of imperialism based upon a "materialistic conception of nationality". The Hitler and Rosenberg plan precludes the principle of the equality of men and nations. The political structure must be readjusted in the democratic manner to fit in with the economic and social changes effected by the Industrial Revolution.

The test will lie in the ability of the democracies and of democracy to provide a satisfactory standard of living and full employment, to bring about proper nutrition, adequate housing, educational opportunities and the like. There is the accepted suggestion that democracy must flow according to economic as well as political requirements. The difficulty

will be to avoid the implications of dictatorship in the inevitable adoption of fundamental social and economic planning both nationally and internationally. Unless the rigidities of the planning technique are removed, the freedom afforded by democracy might well be lost, and consequently in the scheme of things to come, flexibility, not rigidity, should predominate. This should provide a competitive field for collectivism and free enterprise. There is no choice between democracy and totalitarianism. The latter we reject summarily. To preserve the former and make it a necessary condition of a reconstructed world, the wider scope of the democratic processes must be utilized.

The democratic ideal is foremost in the announced policies of the United Kingdom and the United States. Although we are allied with nations undisposed to abandon the dictatorship type of Government, there must nevertheless be full collaboration with them in the international organization. It will be agreed that the intimate partnership of the British Commonwealth and the United States is not only essential to win the war, but as well to effect the desired reconstruction. These two countries will have the dual role of planner and builder. This does not mean that the Anglo-American association alone can do the job. It does mean that this union will serve as the spearhead in finishing the war and in making the peace.

Mr. Clarence Streit is not without his numerous followers. The high ideal of his scheme of world federation commends itself to us only in the sense suggested by Plato's ideal City State—beautiful but far away. Rather the analogy afforded by Aristotle, who preferred an approach more likely to be realized, is the one by which we should seek to bring about some kind of world authority, exercising sufficient power to maintain international order. The conception of federalism on the American, Swiss and Canadian plan gathers in momentum—and this is to the good. We should not be prepared to abandon an approach to this ideal because we cannot have the ideal. A more practical scheme, however, is that suggested by Professor Corbett of McGill University in his "Post-War Worlds". He would adapt many of the features of federalism to international use, but he inclines to the opinion that, "we may have to resign ourselves to leaving to the nations concerned some of the inconvenient liberties maintained by members of that looser type of association technically known as confederation".

No longer can we refuse to divorce political from economic questions. The modifications of sovereignty must reach beyond the political fringe. The future organization of the world community must include

more than an economic research bureau. Just as the League of Nations, now dead, except for its exemplary effects, possessed on paper adequate political authority, so too, the future "League" must be endowed with authority to handle the economic problem. A condition precedent to the co-ordination of politics and economics in the international field is a necessary change of values reflected in an accepted philosophy, as animated and as vigorous as the ready acceptance given by so many misguided men to the tenets of Nazism.

On the economic side, social security would seem to demand for the future a continuation of the many forms of administrative controls which have become part of the job of governments. Thus far, these controls, for the most part, have embraced the national economy; they will receive wider application in the international field. The system of licensing and banning of imports and exports and the regulation of exchange rates are among the forms by which the system of controls has operated. How can the difficulties of the post-war period be dealt with in any other way than by the use of these controls to avoid the dangers of over-expansion in the various domestic economies? The greater the control, the more extensive must be the planning. Thus the Canadian price and wage ceiling policy, the control of production, the control of raw material supply and other controls have given this country a planned economy. The policy of controls internationally applied must be co-ordinated with the controls imposed by national governments. This co-ordination will take several forms; key commodities will be distributed through international pools, and production and distribution will be controlled by international cartels. Both domestic and international economies are now being quickly transformed by the method of administrative control. No real resistance is offered to their imposition because military exigencies demand the sacrifice. It is likely that the disciplinary effect of these controls may in the future be used for bringing about a more progressive society, the exigencies imposing the sacrifice being accepted in consideration for an improved human society with better material opportunities. This system of economic control rivals *laissez faire* which, if allowed unlimited restoration, would provoke disorder in national and international economies. The trend of the future will be to a more extensive international control over raw materials, foreign exchange, markets and credit, by some "supranational" agency representing all classes. It is supposed that by this arrangement capital, labor and management would find opportunities extending into presently unadvanced regions. This would call for an international bank, control of production and distribution of the major foodstuffs and materials, a

rationalized system of immigration and migration, control of employment, and the promotion through the international agency of health and social welfare measures. There is ample evidence in the van Zeeland report to indicate that these projections in the main are not likely to be abandoned. Most certainly the policy of regulating the conditions of labor, including wages, has become a permanent feature. The elimination of poverty and maintaining employment are functions which the political authority must continue to assume. All this cannot but fundamentally affect the economic order. The problem will be to provide this direction without disturbing other national economies, and this renders inevitable a curtailment of national economic and political sovereignty.

It is safe to observe that most economists, even the most orthodox, concur in the view that only by economic co-operation on the basis of some form of collective effort, is it possible to provide for the necessary conditions of human welfare and order among nations. Professor Corbett has carefully synthesized the views of many who have been giving some thought to these problems and he envisages in his "World Commonwealth" the following: (1) A Trade Commission—"instructed to secure the removal of quotas and other direct restrictions on trade and the reduction of tariffs". (2) A Central Bank—"developed out of the present bank of international settlements, having authority to fix, and funds to maintain exchange rates". (3) A Development Commission—"having at its disposal substantial funds for financing public works and industrial installation with a double object of raising standards of living in undeveloped areas and furnishing new outlets for the productive capacity for existing industrial countries". (4) A Migration and Settlement Commission—"to deal with temporary problems like that of the present flow of refugees and with the general movement of populations in accordance with economic and social expediency". These he regards as a minimum of the institutions to be set up. Allowance is made for additional departments. In this scheme, an international civil service will play a major role, but the economic and financial organization will be expected to be mobile, taking the initiative as well as serving as a fact-finding body.

It may be expected that the author of "Post-War Worlds" would have recommendations as to the role of the judicial process in the "World Commonwealth", and no disagreement can be found with the view that the judicial agency should be clothed with compulsory jurisdiction, which would preclude the determination by the parties themselves as to what was a justiciable or legal dispute. He would provide for full objectivity of the court by the seemingly difficult process of "denationalization of all permanent judges".

The totalitarian powers have intentionally assumed that the problem of markets and raw materials was purely an economic problem. At the root of their complaint was and is a political motive. Their military aspirations made it essential for them vigorously to seek in every corner of the earth materials of which their own supply was limited. Likewise the problem of over-population continues to have its political motif. It is untrue that a nation's standard of living is proportionate to the extent of its territory and its availability of raw materials. It will therefore be of considerable importance to place the problem of markets, raw materials and surplus population in their true perspective in relation to the matter of post-war reconstruction.

Just as at the end of the last war the problem of colonies and mandates had to be faced, so too will it be necessary to settle what is still an irritant. In some of these areas are to be found the major food-stuffs and raw materials. But mere possession of these is not in itself a guarantee of a higher standard of living. The supply, unless properly directed by impartial agencies, may well provide cause for complaint. It therefore may be assumed that subject to the will and interests of the inhabitants, the colonial and mandated areas problem will have to be dealt with on the principle of trusteeship and Professor Corbett does not seem to be wrong in suggesting that, "the best solution of the colonial problem is, then, the surrender of what is known as sovereignty to the new collective organization, coupled with the administration through existing services".

The experience of the past two decades will have convinced most of us that the preservation of international order presupposes the use of sanctions. Disarmament is not a necessary condition for peace. The need for the exercise of police power will remain, and the ambitious schemes of the groups such as that headed by Lord Davies may have to undergo the modification suggested by Professor Corbett, who considers that the "contributory joint enforcement of sanctions" will be limited by regional application.

This synthesis will surely have indicated the magnitude of the problem that lies ahead. The formidable character of the task of reconstruction must not dishearten or frighten. On the contrary, the staggering proportions of the problem should encourage us to put into the job our best effort. Taking advantage of our known mistakes in the past, we must pursue our efforts for world rehabilitation in the light of the fact that beating Hitler is but the first step in winning the war. The inevitable changes in the political and economic structure need not cause dismay. These should be looked upon as evolutionary and directing us not toward the day of judgment, but toward the day of opportunity.

BOOK REVIEWS

The Factual Findings by Paul W. Stewart and J. Frederic Dewhurst, with the assistance of Louise Field; the Program by the the Committee on Distribution. New York: The Twentieth Century Fund. 1939.

DOES DISTRIBUTION COST TOO MUCH?

A HIGHLY valuable contribution to business knowledge in time of peace (it was published in August 1939), this work has particular significance today as a guide for the efforts to simplify our civilian supply system as an aid to the maximum prosecution of the war. This program, led in Canada by the Simplified Practice Division of the War-time Prices and Trade Board and in the United States by the Bureau of Industrial Conservation, might, indeed, be described by quoting the sub-title of the book under review, "A Review of the Costs Involved in Current Marketing Methods and a Program for Improvement", accompanied, of course, by the carrying through of the program as it is developed. That there is scope for reducing distribution costs, at least for the duration of the war, is a possible indication of the estimate made by the authors that at least fifty per cent of the total cost of distribution is accounted for by selling and promotional activities, in contrast to the physical task of handling, storing and delivering goods.

In accord with their usual practice in undertaking such studies, the Twentieth Century Fund first of all broke down the problem into two main sections. "A special staff of investigators gathered the essential facts on the methods and costs of distribution in the United States and reported their findings to the Fund's Committee on Distribution. The Committee, composed of men and women of widely differing interests and points of view, but with special knowledge of the field, used the research report to formulate a series of concrete recommendations, aimed to improve the methods and reduce the costs of distribution."

Following an excellent introductory chapter, which states the problem and defines the terms, the first section of the book describes the modern methods of distribution. Distribution is defined as including "the transportation of goods from the point of original or intermediate production to the place of sale or further fabrication, the storage of goods until they are needed, and finally the merchandising, display, and advertising of goods and their actual sale or transfer into the possession of the ultimate buyer." The description opens with an analysis of price spreads in distribution. This rather unexpected approach is justified in the following quotation: "It is in the price he has to pay that the

average consumer comes in contact with the system of distribution; and the spread between the cost of production and the retail price of consumer goods surely has significance. A study of the costs of distribution, therefore, can well begin right there." The retail prices of some scores of consumer goods, ranging in type from cabbages to automobiles, are examined and the price spreads expressed as percentages of retail prices. The flow of goods through the channels of distribution is described in some detail, assistance being provided by a fascinating chart "which shows the movement of commodities from their origin as raw materials to their destination as finished products, and measures their increasing values at various stages throughout the entire process". In this measurement of the flow of goods the year 1929 is used because that year saw the greatest volume of trade in the history of the country. The final chapter of this section portrays the agents of distribution—the retailers and the intermediary traders. Several paragraphs are devoted, as well, to a description of the marketing of industrial goods.

With a background thus developed the authors proceed to study the costs and profits in distribution. "The estimated total cost of commodity distribution in 1929 was about \$38.5 billion, or almost 59 per cent of the \$65.6 billion estimated total cost of producing and distributing commodities." A breakdown of this \$38.5 billion item is as follows:

Retail trade	\$12.6 billion
Manufacturing	9.1
Transportation	8.8
Intermediary trade.....	7.0
Other costs.....	1.1
Gross total	\$38.6
<i>Deduct:</i>	
Cost of selling supplies and equip- ment used by distributors.....	.1
	\$38.5

Justification for the large percentage contributed by the retailers is found principally in the great number of small sales which is the essence of retail trading. The second largest item, manufacturers' distribution costs, according to the authors, has accounted for an increasingly large proportion of the total cost of distribution. "The integration backward toward sources of supply on the part of such mass distributors as chain stores and mail order houses has been paralleled by the development of extensive distribution and sales organi-

zation by large manufacturers. This trend is particularly evident in the growing importance of branded articles which must necessarily be advertised and distributed by the manufacturer on a national scale."

This survey of distribution costs is concluded with an analysis of the costs of facilitating agencies, including: banks, railroads, storage warehouses, advertising agencies and that ubiquitous item, taxes. Attention is drawn to the growing emphasis on demand creation and the resulting expansion and specialization in the field of advertising.

Government regulation repeatedly disturbed the distribution cost picture and a chapter is devoted to various rulings affecting business size, price fixing, price filing, sales below cost, price discounts, and so on. Emphasized in the discussion is the constant struggle between rival interests which has led to government intervention first on one side then on the other. Typical has been that between the large mass distributor and the small "independent" business.

The crux of the problem is reached in the chapter dealing with some reasons for the high cost of distribution. In connection with this phase of the study it must be kept in mind that the job of supplying over one hundred million consumers with the commodities they require is a gigantic one. The geographic specialization of manufacture, the urbanization of the population, the decline of the home as a producer of goods, the enormous increase in the variety of products sold on the market and other similar changes in our economic organization have resulted in an ever-mounting bill for marketing services. "Furthermore, distribution, as we know it today—whether it 'should' do so or not—does undertake to create demand, to hold it and to attach it to brands and dealers."

While no attempt is made here to give any final answer to the question, "Does distribution cost too much?" "an attempt has been made briefly to indicate some features of our distribution system which appear to be too costly—and to give what figures are available to measure them. Some of these costs are due to the very nature of a competitive economy. But to say that they arise from competition does not mean that they cannot be cut without scrapping the system. There are other costs resulting from inefficiencies of management and still others for which consumers themselves are to blame."

As costs of competition the following are cited: duplication of sales effort, multiplicity of outlets, services rendered, multiplicity of brands and competitive advertising. Much of the energy of the dis-

tributive trades is directed to "pressure selling". Some of this (*i.e.*, certain types of demand creation) is desirable but a great deal of it is economic waste. The superfluity of retail outlets, which our free economy has inspired, also has the effect of raising the costs of distribution. For instance, the cost of supplying these non-essential stores is a sizable item.

As examples of some of the services which marketing agents might eliminate to cut distribution costs, the following list, taken from an article in *The Journal of Marketing*, April 1937, by Professor James L. Palmer of the University of Chicago, is quoted by the investigators:

1. They might discontinue selling for credit.
2. They might eliminate free delivery service, reduce the frequency of delivery or narrow delivery zones.
3. They might carry fewer brands of merchandise, thus restricting buyer choice.
4. They might stock smaller quantities of merchandise and refuse to handle slow-selling items, thus forcing many buyers to wait for delivery of orders.
5. They might occupy low-rent locations, thus forcing buyers to go out of their way to make purchases.
6. They might operate on an eight-hour instead of an eleven-to-eighteen-hour day, thus concentrating buying in shorter periods but also restricting service.
7. They might sell only in quantity, thus eliminating small-unit purchases.
8. They might locate only in large trading centres, thus inconveniencing people not living near by.
9. They might confine themselves to staple merchandise instead of aggressively seeking out new merchandise and new styles, thus reducing obsolescence losses and mark-downs.
10. They might withdraw the returned goods privilege, thus reducing selling and handling costs and mark-downs.
11. They might reduce the number of salespeople, thus cutting labor cost but compelling customers to wait to be served.

"Professor Palmer makes the guess that a retail store operating under these conditions could cut the cost of retailing in two—if it had any customers left."

Competitive advertising (*e.g.*, the development of national brands) of such products as cigarettes, tooth paste and cosmetics where production costs and inherent qualities do not vary greatly from one brand to another is a large contributor to the high costs of distribution. Some phases of this type of selling (such as the encouragement given to the use of healthful products) are of value to the consumer but many are wasteful and productive of no economic benefits.

The responsibility of the consumer are such items as new demands and services, of which variety and returned goods are emphasized. The costs of variety are typified in the case of women's apparel. The typical woman expects to buy a finished dress suited to her own tastes, in conformity with prevailing styles and without counterpart, at least in her immediate circle. The expense of catering to this demand is obvious. Consumer buying habits have also led to the adoption by retailers, particularly the large department stores, of generous return and allowance concessions. Quoted in the study is the estimate by Carl N. Schmalz (*Operating Results of Department and Specialty Stores in 1933*, Harvard Bureau of Business Research, Bulletin 92, p. 1), that returns and allowances constitute on the average the equivalent of one day's sales out of every eight in department stores.

Consumer ignorance and irrational buying habits also result in high distribution costs. While the responsibility here is largely that of the consumer himself, yet it is not altogether so. In this connection attention is directed to inaccurate and deceptive labelling, the total lack of labelling found, for instance, in some textiles, and the product ignorance of the average retail clerk. We hear a lot today of the need for descriptive labelling, size labelling (in such articles as children's clothing) and other consumer aids. Progress along these lines is being made by both government and private agencies.

In the race to keep up with the expanding role of distribution and the consequent stiff competition of the past decades, scientific management and cost control have been largely neglected. Coupled with this is the difficulty of measuring costs in the distribution field. Together the two have spelled ignorance, which "breeds high costs, or at any rate prevents high costs from being detected and reduced". Attack on the problem, however, has begun and as progress is made and the results are applied to operations the cause for this criticism will be removed. The desire for volume so characteristic of American business, poor management in the retailing field (indicated by the high mortality

of retail stores), inadequate planning and lack of sound price policies are all named as contributors to the cost of management inefficiency.

Already recorded in this review is the estimate that approximately fifty-nine cents of the consumer's dollar goes to pay for the costs of distribution. The concluding chapter of the study opens with a warning to the reader that this figure "does little more than measure the area in which possible economies in distribution may be sought and possible wastes eliminated. It provides no evidence that distribution is a more wasteful and inefficient process than production." After analyzing the profits earned by distributors, the conclusion is reached that if distribution costs too much it is not because of exorbitant profits—"it seems unlikely that aggregate distributors' profits amount to more than three cents out of every dollar paid for finished goods by consumers and other terminal buyers . . ." The conclusion of the Committee, however, is that distribution does cost too much. This opinion is supported by the findings of the investigators that many features of the distributive process reveal opportunities for savings; that the newer distributive agencies through the economies of standardization and large-scale operation have proved the inefficiency of those which they have displaced and that through a better understanding of their problems other distributors have improved their methods and lowered their costs. As a deterrent to those who may be inclined to jump to conclusions unwarranted by the disclosures of the study, the following quotation is hastily given: "Taking the field of distribution as a whole the process undoubtedly costs too much. But how much too much is impossible to say . . . Nor can we say that distribution is more or less wasteful than production."

Having reached this conclusion, the Committee closes the study with a series of recommendations designed to remedy the defects which the survey disclosed. Among them, these are a few that are appropriate to the simplified distribution system of a total war economy.

"The expansion and better co-ordination of government agencies to provide in adequate and popular form information which consumers need for more efficient buying.

"The development of informational labelling.

"The establishment of a differentiated pricing system for retail goods (separate prices for each article according to the amount of services involved in its sale).

"The further extension for public use of the facilities of

government and private agencies for testing and appraising consumer goods.

"The vigorous prosecution of federal family budget and expenditure studies.

"The development and adoption through government research and organized commercial efforts of improved methods of distribution cost accounting and analysis.

"The provision by government agencies of more comprehensive, accurate, and promptly available statistics on distribution.

"Permission by appropriate government agencies, under specific statutory authority, for distributors to agree on the limitation of certain costly excesses in competition where the result will be to reduce the cost to the consumer."

—R. B. T.

* * *

THE NEW ECONOMIC WARFARE

ANTONIN BASCH

(Columbia University Press, New York, 1941)

The New Economic Warfare is, in the author's own words, an attempt "to examine and illustrate the economic impact of a great modern total war, to outline the special preparation which such war involves, and to follow the transformation which the belligerent nations are compelled to adopt and which spreads to affect the entire economy". An amazing amount of information and statistical evidence is contained in the book despite its mere 186 pages. Its title is a misnomer, the product of a peculiar psychological quirk common to American publishers. Dr. Basch's suggestion was: *Some Economic Problems Involved in the Present War* (a beautiful example of the trait in question is Rauschnig's book—sold in the United States as *The Redemption of Democracy*—in Great Britain as *The Beast From the Abyss*).

While the detailed and comprehensive nature of Dr. Basch's book may be limited by its size, its authoritativeness recognizes no such bounds. Dr. Basch, one of the foremost economists of Czechoslovakia, was at one time professor of economics at the Universities of Prague and Bratislava, commercial attache at Berlin (immediately following

the last war), Czech delegate to the League of Nations and Bank for International Settlements, Czech representative at the London, Stresa and Geneva Economic Conferences and head of the Research and Central Banking Department of the National Bank of Czechoslovakia. Before his fortunate escape from Prague, after Munich, he was managing director of the United Chemical and Metallurgical Works, the largest chemical company in Central Europe. This academic and practical career no doubt helped Dr. Basch develop his enviable facility for synthesizing his remarkable store of information with ideas. *The New Economic Warfare* is an expanded version of a series of lectures delivered at Columbia University during the summer session of 1941, while Dr. Basch was Visiting Professor of Economics at Brown University.

Unlike too many economists and in keeping with his teaching philosophy, Dr. Basch has not added to the complexity of the problems under consideration, but has rather reduced tricky and complex ideas to simple terms without in any way encroaching on their accuracy. His ability to synthesize material and present his ideas clearly is both a virtue and a drawback. A hurried reading of his book, because of the logic and clarity of its exposition, might produce the comment "Obvious". A closer analysis of the contents reveals many profound and not so obvious truths—truths, the full significance of which, few in Canada or the United States yet recognize. These truths are not confused or confounded by bitter rhetoric: They are examined very objectively—which is quite amazing considering the very personal connection Dr. Basch has had with European events.

The author's opening chapter is an explanation of the economic preparations for war. Next he delves into the theoretical nature of a war economy, following this with an illustrative chapter on the German, British and American economic efforts. The fourth chapter of *The New Economic Warfare* is an outline of economic warfare proper from the beginning of the war up to the summer of 1941. The concluding chapter of the book is entitled "From War to Peace" and sheds light on some of the fundamental post-war problems, immediate and distant. The book, while short, is very pithy and is jammed with appropriate factual illustrations.

Dr. Basch, not given to oversimplification, does not try to stuff facts into a preconceived mold. Using a type of Gestalt approach, he points out that because a great modern war involves a maximum of

sacrifice from all sections of society, it "cannot be explained by theories which appeal to particular economic causes". He shows how Germany subordinated all purposes to the development of a national defense economy regardless of costs and sacrifices. A world "believing in traditional economic principles underestimated the strength and the dynamic force of a seemingly static totalitarian economy". Too many on this continent have still to learn the true insignificance of price in a totalitarian economy and in a free economy stripped for war. Isn't it unfortunate that the general public and, in particular, the appeasers didn't learn earlier to think in terms of real economics?

*"They have dreamed out their dream
And awakening have found nothing in their hands."*

In view of the recent and rapid growth of economic control in Canada, the chapter entitled "War Economics" should be of particular interest to Canadians. While recognizing the organizational difficulties inherent in the transformation from a free economy to a war economy, Dr. Basch nevertheless envisages more comprehensive and all inclusive controls than do most prominent American economists who have written in the field. Dr. Basch is thinking in terms of the ultimate war economy established, while most Americans speak only, perhaps, of its immediate developments. Dr. Basch, coming from a more war-conscious Europe, also possibly sees the necessity for a greater percentage effort than do most members of the American public. "Control or even regimentation of prices and wages cannot succeed if the monetary and financial policy follows an inflationary course; and on the other hand, anti-inflationary monetary and financial measures cannot be fully efficient if prices and wages are permitted to go up in consequence of the situations created by bottlenecks and other factors." These thoughts are very relevant to a consideration of the new Canadian price ceiling. It should be remembered that maximum prices are of little constructive value unless complemented by rationing of goods in short supply and a system of priorities. It is important also to realize that unless financial policy is integrated with other price controls, a price ceiling is largely wasted administrative effort.

Dr. Basch states that in Canada, during the last fiscal year (1940-41), national income was \$1,200,000,000, larger than before the war, while the increase in the outlays caused by the war was about \$1,000,000,000. This does not invalidate his thesis of "guns or butter" because Canada's efforts, while great, could not be regarded as "adequate to a total war in the proper sense as in the case of Great Britain".

Only in an undeveloped country "having large natural resources and the ability to use modern manufacturing technique and equipment" could this have happened.

Dr. Basch follows up his theoretical chapter on war economy with a shrewd comparison of the German, British and American war economies, supported by much statistical evidence collected from European and American sources. This comparison is followed by 25 pages devoted to a discussion of economic warfare proper from the beginning of the war up to the present.

It is impossible to do any kind of justice to Dr. Basch's last chapter in such a brief review. The fundamental task of the post-war world is "to develop a new economic equilibrium in the world and to restore a social balance within the nations". On the same subject, he says: "We must never forget this fundamental fact—there can be in the present world economy no satisfactory and lasting order which rests upon gross differences in levels of living among nations and within nations whose economies are highly developed." To my mind, these grossly neglected truths bear emphasis. Dr. Basch calls for world-wide co-operation, especially with the British Commonwealth and the United States. "The automatic functioning of the world economy which prevailed before 1914 must be replaced by an organized co-operation, in regard to credit and international finance, in the development of backward areas, in control of raw materials and so on."

Dr. Basch regards the state of maturity described by the notion of mature national economy as the outcome of a temporary and isolated bottleneck situation. Perhaps he should have applied the term "bottleneck" to the notion as well as to the state it describes. In any case, by repudiating this stagnant Harvard fetish, Dr. Basch is enabled to arrive at strong optimistic conclusions.

In this brief review I have been able to refer to only a few of the problems discussed by the author. No cynic, Dr. Basch throughout his book combines his vigorous idealism and faith in human nature with an admirable practical approach. *The New Economic Warfare* is a book valuable to economist and layman alike. It contains a great store of facts and ideas. Not only one of the more significant contributions to war economics, this book should also be a literary lesson to some of the more confusing and verbose American economists.—H. G. TAYLOR.

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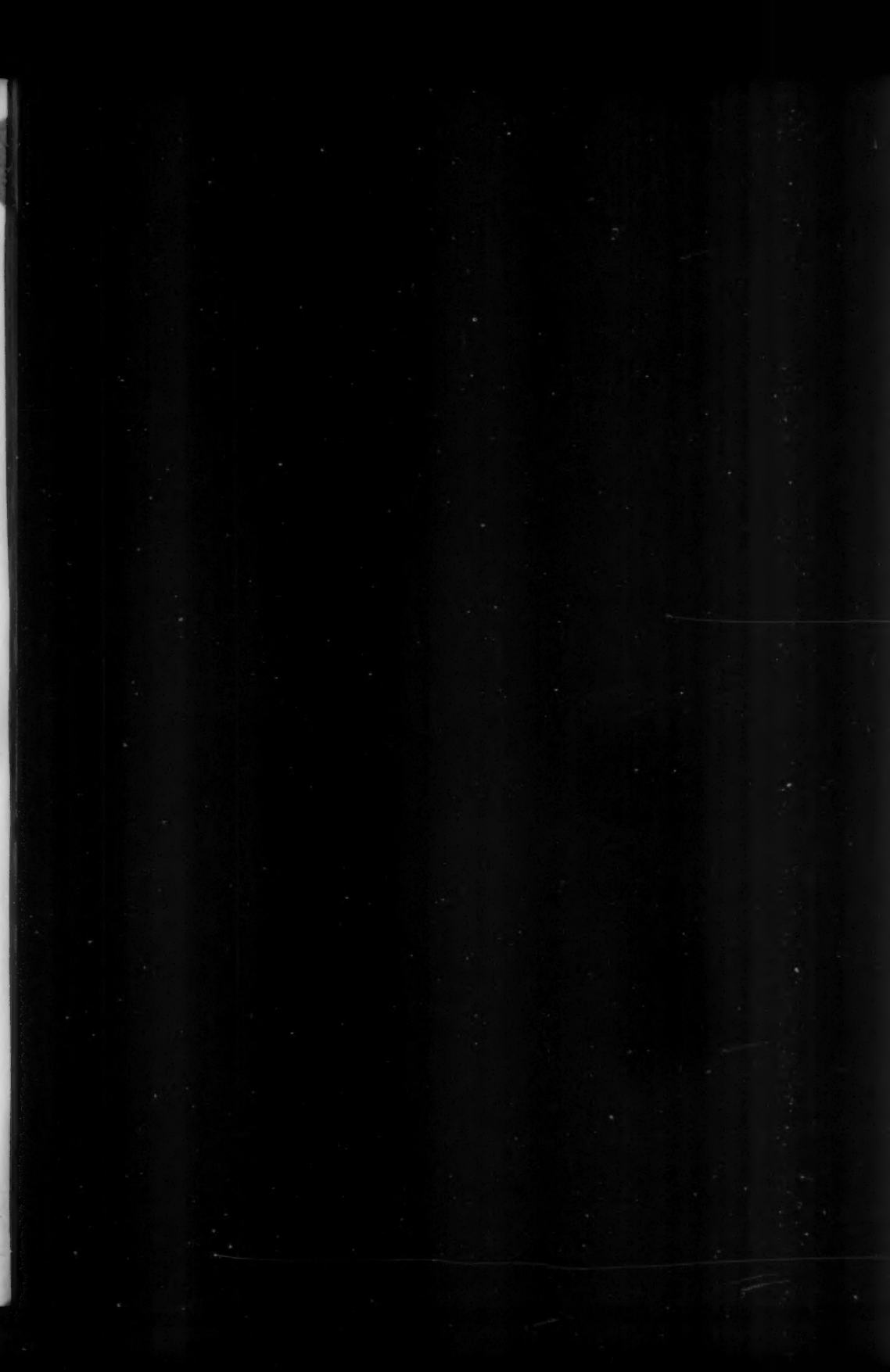
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